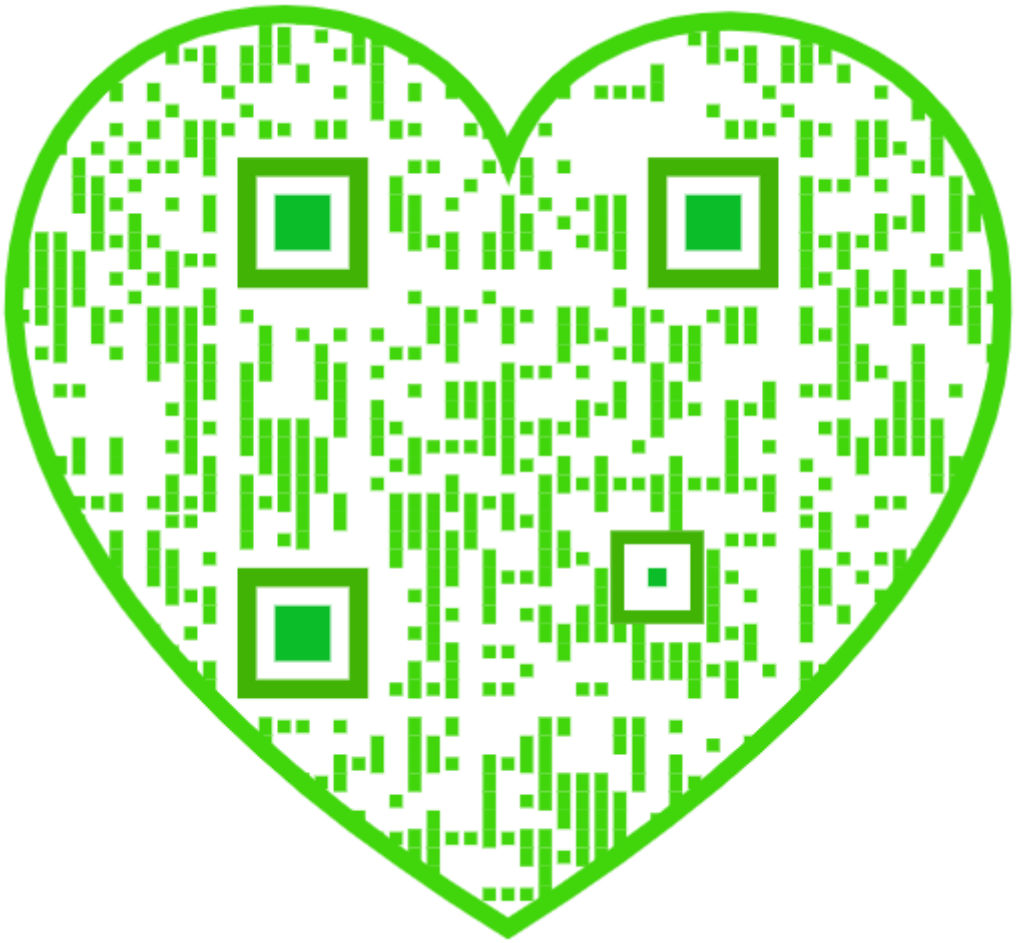

20th Century Bookkeeping

and

Accounting

A TREATISE ON THE PRINCIPLES OF ACCOUNTING AND BOOKKEEPING PRACTICE APPLIED BY MODERN BOOKKEEPERS AND ACCOUNTANTS

FIFTEENTH EDITION

FOR USE IN ALL SCHOOLS THAT TEACH BOOKKEEPING AND ACCOUNTING

BY JAMES W. BAKER

ASSISTED BY

COMMERCIAL TEACHERS AND PRACTICING ACCOUNTANTS

THE DISCUSSION IN THIS TEXT AND THE TRANSACTIONS IN THE PRACTICE SETS WHICH ACCOMPANY IT ARE THE RESULT OF SUGGESTIONS RECEIVED THROUGH PERSONAL INTERVIEWS AND CORRESPONDENCE WITH THOUSANDS OF TEACHERS, PRACTICING ACCOUNTANTS, AND BOOKKEEPERS, DURING TWENTY YEARS' ASSOCIATION WITH THOSE ENGAGED IN COMMERCIAL WORK

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PREFACE

The successful business man should know that a profit will result from the transactions in connection with his business before they are completed. To determine this he should have such information as will show the detailed operating cost, the profit from trading or other operations, the net profit for each fiscal period, its source, and the increase or decrease over previous periods.

A report concerning the failure or suspension of a business, accompanied by the statement that the creditors will not know what percentage of their claim may be collected until the experts have audited the books, indicates that the management did not have all the facts available in connection with the business. Such a statement is so common in the newspaper announcement of failures that it suggests a connection between accounting and success.

If these conditions are to be improved, it is necessary to teach the correct principles of accounting and the best practice in applying them. The bookkeeping student of today is the bookkeeper or business man of tomorrow. If he has a knowledge of the correct principles, as bookkeeper he will apply them, or, as manager, he will see that they are applied by the bookkeeper.

The purpose of this text is to present the correct principles of bookkeeping and accounting,—principles advocated and practiced by modern bookkeepers and accountants. The information upon which it is based was obtained from standard authorities on accounting and from consultations with practicing bookkeepers and accountants.

The text is prepared primarily for the student and not for the practicing bookkeeper or accountant. The presentation permits the beginner to master first the simple principles of accounting as applied in a small business. When he understands these, he can then appreciate the more complicated principles of accounting necessary in recording the transactions for a business of extensive operations.

A study of the text would result in only a theoretical knowledge of the subject. Practice is necessary in applying the principles. A correct knowledge of the principles is essential, but efficiency in applying this knowledge is of equal importance. The student who has mastered the principles of bookkeeping and accounting should have also acquired accuracy, neatness and speed. For this reason the practice sets require the recording of a number of transactions,—a sufficient number to impress on the student's mind the importance of a correct record and to give him confidence and skill in applying his knowledge of the subject.

That the student may learn to recognize a transaction from the paper that represents it in business, he is required to make his record in the practice sets from reproduced business papers. The transactions, moreover, are practical, and identical with those that occur in business. Applying the correct principles and recording practical transactions represented in the same manner as they are in business, gives the student a knowledge of the subject which will make his services desirable to the business man, and valuable to himself.

Not only should the student who has completed a course in bookkeeping and accounting understand the principles of the subject and the best practice in ap-

plying these principles, but he should also have some knowledge of the efficient methods employed in modern business. This knowledge, given in connection with the sets, includes special ruling in all books of original entry, carbon copy and loose leaf records, controlling accounts, and many other time-saving methods made popular by practicing bookkeepers.

Efficiency in office routine means the greatest amount of work with the best results at the least cost. As applied to the work of the bookkeeper, it means the ability to record the greatest number of transactions with correct results in the least possible time. Throughout the text and sets, special attention is given to modern methods in recording transactions.

The student who has mastered the principles in this text and completed the sets that accompany it, need not hesitate to accept a position as bookkeeper in any office. He can rest assured that the training received will have prepared him to make a correct record in an efficient manner. If the work of his predecessor has not been correctly done, he is prepared to improve the method in use. He can act with the assurance that the work he does will be approved by the accountant who audits his books.

The student of bookkeeping will soon be receiving an income, hence should know the connection between the knowledge gained through the bookkeeping course and the income tax statement required by the Government. To provide this information, practice is given in the preparation of income tax statements. Information in regard to the forms is given in an appendix because these forms will be changed from time to time by legislation. The student who understands the principles of accounting as explained in this text, and the bookkeeping practice illustrated in the practice sets, will find the preparation of an income tax statement a very simple problem.

THE PUBLISHERS.

Part One

Chapter I

BUSINESS AND BOOKKEEPING

The Purpose of this Chapter is to introduce the student to the subject of bookkeeping by showing him its purpose through an explanation of business. There are many reasons why the student should understand bookkeeping. The business man will pay well for information which he needs; hence the one who can provide this information through a knowledge of bookkeeping will command a good salary for his services. The student who is ambitious to become a business man should know bookkeeping because this knowledge will enable him to interpret the information obtained from his bookkeeping records and to use it as a basis for future operations of the business.

§ 1. **Each Individual** requires food, clothing, education, amusement, and many other things necessary for his comfort and enjoyment. These necessities and luxuries can be obtained with money, which is a medium of exchange and the standard of value. An individual secures money (a) through income received as wages or salary for services he has rendered to others, (b) through the use by others of property which belongs to him, or (c) through the profit resulting from the operations of a business owned by him either in part or as a whole.

James Brown is employed as salesman for the Citizens Motor Car Co.; his income is the salary received for the service rendered. J. W Smith owns the building in which the Citizens Motor Car Co. is operated; his income is the rent received for the use of the building. W. O. Winkler owns the Citizens Motor Car Co.; his income is the profit made by selling automobiles at a price greater than the cost.

§ 2. **A Business.** The one who sells to the individual the food, clothing, education, amusement, or other things which the individual needs for his comfort and enjoyment, is said to be engaged in business, and the operations in connection therewith are referred to as business transactions. The operations include the buying and selling of the commodities in which the business deals, at a place of business and under a name selected by the owner. There are many kinds of businesses, each of which supplies a specific demand; there are many businesses of the same kind which undertake to supply the same demand.

Robert Brown owns and operates a drug store at 405 Main St., known and advertised to the public as "The Central Drug Store." Mr. Brown is a business man because he operates a business. The operations of his business include the buying and selling of medicine and drugs, as well as the other articles a drug store usually handles, and his business is referred to as a drug business.

§ 3. **Assets, Liabilities and Proprietorship.** If the owner of a business is to have ready for sale the merchandise or service which he expects to sell, he must have cash with which to purchase this merchandise or service. The cash, merchandise, and other property needed to carry on the operations of a business are known as its assets. Should the owner of a business agree either in writing or verbally to pay at a later date for the merchandise or service purchased, he has incurred an obligation or debt; this obligation is known as a liability, and all the obligations of the business are known as its liabilities. The liabilities are to be paid out of the assets of the business, hence the owner's interest in the busi-

ness is the excess of total assets over total liabilities; this interest is known as his proprietorship. Stated in equation form, assets − liabilities = proprietorship.

John Jones, who has $3,000.00 in cash, wishes to purchase a drug store; Robert Brown, who owns and operates "The Central Drug Store" is willing to sell the same for $2,500.00. January 1, Mr. Jones pays Mr. Brown $2,500.00 for which he secures all the assets of the store; these include drugs, medicine, and other merchandise usually offered for sale by a drug store, and a soda fountain with the usual equipment. He retains the $500.00 for the purpose of buying other drugs. If this $500.00 is not sufficient to pay for the drugs purchased and these drugs are sold to him upon his promise to pay later, he incurs a liability. During the operations of the business his interest in the business is the value of all the assets belonging to the business less the liabilities.

§ 4. **The Name of an Asset or a Liability** depends on its nature. Custom has fixed the names of the assets which usually belong to a business and the liabilities which are usually incurred. Money is referred to as "cash;" written promises (in negotiable form) of those who agree to pay money to the business, as "notes receivable," and verbal promises, as "accounts receivable;" merchandise in stock, as "inventory;" fixtures used in the business, as "furniture and fixtures;" written promises (in negotiable form) of the business to pay money at a future date, as "notes payable;" and verbal promises, as "accounts payable."

§ 5. **Cost and Income.** When a business is organized, the owner expects to purchase the merchandise or other property which he sells, also to pay rent, salaries, advertising, etc.; these are known as costs. The owner of the business also expects to sell the merchandise or service which he offers for sale; the returns from sales are known as income. If the income be greater than the cost, the business has been operated at a profit; if the income be less than the cost, it has been operated at a loss.

When Mr. Jones bought the drug business, he knew there would be certain costs in connection with its operations, including rent, salaries, telephone service, purchases of merchandise, supplies for the soda fountain, etc. However, he was willing to assume these costs because he expected an income from the sales of merchandise which he purchased and from the products of his soda fountain. If at the end of the first year his costs amount to $4,000.00 and his sales to $5,000.00, he will have made a profit of $1,000.00 through owning and operating the drug business.

§ 6. **The Name of Each Cost and Income** depends on its nature. It is quite evident that cost for rent and cost for merchandise purchased are of an entirely different nature; also that the income from the sale of merchandise and the income from the sale of service are of a different nature. Custom has fixed the names of the costs and income which occur in the usual operations of the business. Rent and salary costs are known as "expenses;" merchandise purchased for sale, as "purchases;" income from the sale of this merchandise, as "sales;" income from the use of money, as "interest;" income from the sale of services such as that rendered by telephone and telegraph companies, as "tolls;" and income from the sale of service rendered by a street railway company, as "passenger receipts."

§ 7. **A Business Transaction** is, theoretically, an exchange of equivalent values; that is, the business receives an equivalent value for the material or service which it sells to others, and gives an equivalent value for the material or service which it purchases. Because of this exchange of values, each transaction will result in a parting with values by the business with a resulting increase of liabilities or income; and a corresponding receipt of value with a resulting increase of assets or cost.

Mary Davis pays John Jones, the owner of The Central Drug Store, 25c for a magazine; this is a transaction performed by the owner because he receives cash and parts with a magazine. James Doyle pays the street-car conductor a fare of 8c; this is a transaction performed by the street-car company because it receives 8c cash for service it has rendered.

§8. **Bookkeeping** is the systematic recording of the transactions of a business, or of any changes which may affect the owner's interest in the business. This record is made (1) by writing the date, explanation, and amount of each transaction; (2) by classifying the items of the record to show values received (assets and costs), and values parted with (liabilities and income).

The term "accounting" in the title of this text is usually used with the same meaning as bookkeeping. However, there is a technical difference which will be explained later. No attempt is made to explain everything about bookkeeping and accounting at the beginning, because it would only result in confusion, and the student can better learn as he advances.

§ 9. **The Purpose of Bookkeeping for a Business** is to provide a record of all transactions performed by the business. The owner of the business needs this information in order that he may know the value of the assets and liabilities of the business, and the cost and income resulting from its operations. The information gained through the operations of the business in the past can be of value to the owner in connection with the performance of future transactions only when he has a complete record of the transactions performed.

§ 10. **The Purpose of Bookkeeping for an Individual** whose income results from a salary or an investment is the same as for a business—that is, to assist the individual to better control his income and expenditures. If, at the end of each year, the individual knows his total income for the year and his expenses for the year, he will be in a far better position to control future expenditures than if he depends on the information obtained from an actual count of the assets he has remaining at the end of the year. The individual who has money invested in property should record the cost of the property, the cost of taxes, insurance, repairs, etc., and the income from rent; with this information he can determine whether his investment is profitable.

The individual whose income is a salary can better control his expenditures by making appropriations for those expenditures which he knows will occur, such as rent, food, clothing, amusements, contributions, etc; this will enable him to avoid spending more for any one of these items than his salary will permit. This plan of making appropriations is referred to as a "budget system," and the list of appropriations, as a "budget." The budget system is not only applicable to the affairs of an individual, but is also applicable to the affairs of a government and a business concern. City, county, state, and national governments are rapidly adopting the budget system for the control of expenditures, and many business concerns make expenditures for advertising, salaries, improvements, etc., through a system of budgetary control.

§ 11. **Summary.** The student needs to know bookkeeping because a knowledge of the subject will increase the value of his services, whether sold to others or used in connection with his own business. Income can be earned through a salary received, an investment, or the operations of a business. A business man is one who undertakes to provide services or commodities for which there is a demand. Assets are needed in connection with the operations of a business, and liabilities may be incurred. The proprietorship of a business is the value of the assets after the liabilities are deducted. Cost refers to expenses and purchases made necessary in order that the business man may have an income through the sales of merchandise or services. A business transaction is an exchange of equivalent values; each value involves an asset, a liability, a cost, or an income. These transactions are recorded in order that the owner of the business may have a record of them. This record is made by writing the date of the transaction, the name of the asset, liability, cost or income, and the value received and the value parted with. Every transaction affects an asset or an income and a liability or a cost.

QUESTIONS

1. What is the purpose of bookkeeping?
2. Is it advisable for a person who receives a salary for his services to keep a record of the transactions which he performs in connection with his affairs?
3. Name some of the transactions which the individual would perform in connection with his affairs.
4. Would you think it advisable for a person who receives a salary to appropriate fixed amounts for living expenses, clothing, charity, and savings? State reasons for answer.
5. Would it be advisable for the owner of an apartment building with six apartments to keep a record of the transactions performed in connection with the operation of the building? Why?
6. Name some of the transactions which the owner of the apartment building would perform.
7. How would he ascertain whether the ownership of the apartments was a profitable investment?
8. Would you consider a contractor who undertakes to build houses, roads, sidewalks, etc., a business man? Why?
9. Name some of the transactions which he would perform in connection with the operations of his business.
10. Is the payment of street car fare by the individual who rides on the car a business transaction from the standpoint of the street car company?
11. Name some of the assets which would be needed and some of the liabilities which might be incurred in connection with the operation of a railroad.
12. Name some of the assets and liabilities in connection with the operation of a grocery business.
13. Would you consider it advisable for those in charge of a city government to make a record of the transactions completed in connection with its operations? Why?
14. Name some of the transactions which would be recorded in connection with the operations of a city government.
15. Is an automobile truck, owned and used by the grocer for delivering groceries, one of the assets of his business?
16. Name some of the operating costs in connection with the operations of a steamer which carries freight and passengers.
17. Name some of the assets which would be needed and the liabilities incurred in connection with the operations of this steamer.
18. Name some of the operating costs in connection with the publication of a daily newspaper.
19. Name some of the assets and liabilities in connection with the operations of a newspaper.
20. Is the farmer engaged in operating a business?
21. Name some of the transactions which would occur in connection with the operations of a farm.
22. Name some of the assets needed by the farmer and some of the liabilities he might incur in connection with the operations of his farm.
23. Name some of the operating expenses which it would be necessary for the farmer to pay in connection with the operations of his farm.
24. Name some of the transactions which a physician would perform in connection with his practice.
25. Name three businesses of the same kind. Name three businesses of different kinds.

Chapter II

RECORDING TRANSACTIONS

The Purpose of this and the three succeeding Chapters is to explain (a) the method of recording transactions in accounts with Cash, Purchases, Sales, persons, Expense, and the proprietor, (b) the use of the general journal, (c) the use of special journals, and (d) the Trial Balance. Exercises consisting of business transactions which have been performed are provided in order that the student may obtain practice in applying the principles discussed in the text.

§ 12. **An Account** is a systematic record of all the transactions with any one asset, liability, cost or income collected under a specific title; this title is the name of the asset, liability, cost or income. The ruled form for an account should contain two sides (Illustration No. 1), one to show the date of the transaction and the value received, and the other the date of the transaction and the value parted with. The balance of an account is the difference between the totals of the two sides. An account is "open" when the totals of the two sides are not equal, and "in balance" when the totals are equal.

Illustrations Nos. 1, 2, 3 and 8 in this chapter illustrate and explain the form of an account. Illustration No. 3 shows that at least two accounts are required to record each transaction.

NAME OF THE ACCOUNT

Values Received						*Values Parted With*					
Year Month	*Day*	*Explanation*	*Page*	*Dollars*	*Cents*	*Year Month*	*Day*	*Explanation*	*Page*	*Dollars*	*Cents*

Illustration No. 1, The Account.

§ 13. **Debit and Credit** when used as bookkeeping terms, describe the two sides of an account; debit refers to the left side and credit to the right side. The value received in a transaction is recorded on the debit (left) side of one account, and the value parted with on the credit (right) side of another account.

§ 14. **The Ledger** is a bound book, loose-leaf book, or cards, with rulings to contain a record of transactions in account form; Illustration No. 2 shows a ruled ledger page. The name of the account is written across the page, and each transaction recorded on the opposite sides of two accounts, as in Illustration No. 3 which shows a ledger with three accounts.

The number of accounts in the ledger depends entirely on the nature of the operations of the business, and the extent of these operations. The space required for recording transactions in any one account depends on the number of transactions which affect the account; this space is determined by one who is familiar with the nature of the business and the transactions performed by it.

Illustration No. 2, One Form of Ruling for a Ledger.

CASH ACCOUNT

§ 15. **The Purpose of this Account** is to show the amount of cash belonging to the business as a result of the transactions in which cash is received and paid. "Cash" is a term applied to money or any commercial paper which the bank will accept at its face value as money. The various forms of commercial paper which are regarded as cash will be explained and illustrated later.

Debit the Cash Account:

¶ 1. For cash received.

Credit the Cash Account:

¶ 2. For cash paid.

¶ 3. *The Balance of the Cash Account* shows the amount of cash which belongs to the business as a result of the cash transactions completed; it is one of the assets of the business. This cash may be in the safe, in the bank for safekeeping, or a part in each place. (See Illustration No. 3.)

There are four important points relating to each account which the student should understand: (a) its purpose, (b) the transactions to be recorded on the debit side, (c) the transactions to be recorded on the credit side, and (d) the interpretation of its balance—that is, whether it represents an asset, a liability, a cost, or an income. The discussion of each account in this text is arranged so as to emphasize these four points.

§ 16. **Proving Cash.** Since the Cash account is a record of all cash received and paid, the balance should be the same as the cash belonging to the business. Cash is proved by counting the cash and comparing the amount with the balance of the Cash account. If there has been an error in making change, or a transaction affecting cash has not been recorded, it is obvious that the balance of the account will not be the same as the cash on hand.

PURCHASES ACCOUNT

§ 17. **The Purpose of this Account** is to show the net cost of all the merchandise purchased for sale. Merchandise is a general term applied to goods bought and sold in the trading business, such as groceries, clothing, shoes, hats, hardware, drugs, musical instruments, jewelry, etc.

Debit the Purchases Account:

¶ 1. For the cost of merchandise purchased, and the transportation (freight, express, and postage), drayage, and storage cost of this merchandise.

Credit the Purchases Account:

¶ 2. For the cost price of merchandise returned to the seller, and allowances granted by him.

¶ 3. *The Balance of the Purchases Account* shows the net cost of merchandise purchased during the period for which the record is kept; it is one of the costs of the business. This balance will not, as a rule, represent the value of the merchandise owned by the business because the merchandise was purchased for sale and a part of it has probably been sold. (See Illustration No. 3.)

SALES ACCOUNT

§ 18. **The Purpose of this Account** is to show the net returns from the sales of merchandise. It is a record of the transactions affecting the sales of those articles purchased for sale, the cost of which is charged to the Purchases account.

Debit the Sales Account:

¶ 1. For the selling price of merchandise returned by the customer, and allowances granted to him.

Credit the Sales Account:

¶ 2. For the selling price of merchandise sold.

¶ 3. *The Balance of the Sales Account* shows the net returns from the sales of merchandise during the period for which the record is kept; it is one of the incomes of the business. (See Illustration No. 3.)

RECORDING TRANSACTIONS DIRECT IN THE LEDGER

§ 19. **Transactions are Recorded** in the order in which they occur. The record may be made direct in the ledger or in a separate book and transferred to the ledger. Illustration No. 3 shows the method of recording direct in the ledger the transactions outlined below and at the top of page 12. The transactions are those relating to the sales and purchases of merchandise for cash performed by the soda fountain department of The Central Drug Company during the week beginning July 2.

July 2. Cash sales for the day per cash register, $39.40.
Recorded in Illustration No. 3 on the debit side of the Cash account and credit side of the Sales account.

3. Bought syrups and extracts, $5.00; Coca-Cola, $12.75; ice cream, $19.20.
Recorded in Illustration No. 3 on the debit side of the Purchases account and credit side of the Cash account.

Cash sales for the day per cash register, $50.30.
Recorded in Illustration No. 3 on the debit side of the Cash account and credit side of the Sales account.

5. Returned one gallon of ice cream purchased on the 3d, and received $2.50, the cost price, for the same.
Recorded in Illustration No. 3 on the debit side of the Cash account and credit side of the Purchases account.

Bought sandwiches, $12.50; flavoring, $16.40; ice cream, $20.00.
Recorded in Illustration No. 3 as explained in § 17, ¶ 1 and § 15, ¶ 2.

(*Concluded on page 12*)

Cash

19—			19—		
July	2	39 40	July	3	36 95
	3	50 30		5	48 90
	5	2 50		7	1 50
	6	21 50			87 35
	7	67 50			
		176 20			

Purchases

19—			19—		
July	3	36 95	July	5	2 50
	5	48 90			
		85 85			

Sales

19—			19—		
July	7	1 50	July	2	39 40
				3	50 30
				6	21 50
				7	67 50
					178 70

Illustration No. 3, A Ledger Containing Three Accounts.

EXPLANATION. The information given in connection with each transaction and the method of recording it is sufficient explanation of this illustration.

(*Continued from page 11.*)

July 6. Cash sales for the day per cash register, $21.50.
Recorded in Illustration No. 3 as explained in § 15, ¶ 1 and § 18, ¶ 2.

7. Gave James Smith $1.50 for one-half gallon of ice cream which he returned because it was received in bad condition.
Recorded in Illustration No. 3 as explained in § 18, ¶ 1 and § 15, ¶ 2.

Cash sales for the day per cash register, $62.50.
Recorded in Illustration No. 3 as explained in § 15, ¶ 1 and § 18, ¶ 2.

§ **20. A Trial Balance** is a list of the open accounts in the ledger with the balance or the total debits and total credits set opposite the name of each account; its purpose is to test the equality of the debits and credits recorded in the ledger. The Trial Balance is usually prepared on paper with two money columns ruled at the right so that the debit totals or debit balances may be entered in one column, and the credit totals or credit balances in the other. The test is satisfactory when the total of the debit column on the Trial Balance equals the total of the credit column. Illustration No. 4 shows a Trial Balance of totals, and No. 5 a Trial Balance of balances prepared from the ledger in Illustration No. 3.

Central Drug Co.
Trial Balance July 7, 192

1 Cash	17620	8735
1 Purchases	8585	250
1 Sales	150	17370
	26355	26355

Illustration No. 4, A Trial Balance of Totals.

EXPLANATION. This Trial Balance is prepared from the ledger in Illustration No. 3. The page in the ledger and the name of each account are written at the left, and the total debits and total credits are written in the two money columns at the right. If the Trial Balance is footed before it is ruled, the totals are entered in small pencil figures in the same manner as the totals in Illustration No 3. By comparing Illustration No. 4 with Illustration No. 3, the student will observe that it is necessary to add the accounts in the ledger and write the totals in small pencil figures before preparing the Trial Balance.

Central Drug Co.
Trial Balance July 7, 192

1 Cash	8885	
1 Purchases	8335	
1 Sales		17220
	17220	17220

Illustration No. 5, A Trial Balance of Balances.

EXPLANATION. It is customary, when taking a Trial Balance of balances, to write the balance in the explanation column on the larger side of the account in the ledger. These balances are not shown in Illustration No. 3 because they are not necessary in taking a Trial Balance of totals.

Exercise No. 1, Recording Transactions Direct in the Ledger.

Record on ledger paper* (paper with the same ruling as Illustration No. 2) the following transactions performed during the month of January by J. W. McCormick, a dealer in musical instruments. Write the names of the three accounts before recording the transactions; allow twelve lines for Cash, eight lines for Purchases and twelve lines for Sales. The space given for each account includes sufficient lines for recording the transactions and one line for the name of the account. If one sheet of ledger paper is used for the three accounts, separate them by double red lines as in Illustration No. 3.

In practice, transactions are recorded separately from the ledger and transferred to it, but for the purpose of instruction the first few exercises are recorded direct in the ledger.

Jan. 1. Sold for cash one piano, $450.00.
Record on the debit side of the Cash account and on the credit side of the Sales account in the same manner as the transaction for July 2 is recorded in Illustration No. 3.

2. Bought for cash one hundred Victrola records, $110.00.
Record on the debit side of the Purchases account and on the credit side of the Cash account in the same manner as the first transaction for July 3 is recorded in Illustration No. 3.

5. Sold for cash one Victrola, $225.00; records, $10.50.
Record in one amount on the debit side of the Cash account and on the credit side of the Sales account in the same manner as the second transaction for July 3 is recorded in Illustration No. 3.

7. Sold for cash one piano, $350.00.

10. Sold for cash one player-piano, $500.00; rolls, $22.50.

12. Bought for cash three Victrolas, $320.00; paid freight on the same, $52.50.

14. Sold for cash one Victrola, $200.00; records, $42.50.

17. Gave J. O. Smith $1.50 for a damaged record which he purchased on the 14th and returned.
Debit § 18, ¶ 1; credit § 15, ¶ 2.

18. Sold for cash one Victrola, $50.00; records, $6.50.

20. Bought for cash one piano, $225.00; paid freight and drayage on the same, $42.65

23. Sent the damaged record returned to us on the 17th to the distributing agent of the records and received 90c for the same.
Debit § 15, ¶ 1; credit § 17, ¶ 2.

27. Sold for cash one Victrola, $75.00; records, $10 50.
Bought for cash one piano, $300.00; paid freight on the same, $48.65.

30. Received $3.50 from the railroad company to pay for overcharge on freight paid on the 20th.
Debit § 15, ¶ 1; credit § 17, ¶ 2.

31. Sold for cash one piano, $350.00.

When these transactions have been recorded in the three accounts, add the debit side and the credit side of each account, enter the totals in small pencil figures as in Illustration No. 3, and prove the equality of the debits and credits by a Trial Balance of totals as in Illustration No. 4.

Exercise No. 2, Recording Transactions Direct in the Ledger.

Record on ledger paper* the following transactions performed during the week beginning May 28 by Charles Smith, a butcher. Allow space for the accounts as follows: Cash, ten lines; Purchases, eight lines; Sales, nine lines.

May 28. Cash sales for the day per cash register, $42.85.

(*Concluded on page 14*)

*NOTE. The exercises in the text are not to be recorded in the books of account provided for the practice set. Unless special blanks, marked "For Exercises in the Text," are provided, the student should use loose sheets of ruled paper. Present exercises for approval as directed on the direction card or as directed by the instructor.

Exercise No. 2—(Continued from page 13.)

May 29. Bought meat for cash, $22.50.
Cash sales for the day per cash register, $35.60.
30. Paid the express company $20.00, $18.75 of which was for a cash purchase of lard and $1.25 for express charges on the same.
Cash sales for the day per cash register, $45.25.
31. Gave Mrs. R. K. Polk $1.10 cash for a steak which she returned because it was not satisfactory.
June 1. Bought meat for cash, $57.50.
Cash sales for the day per cash register, $49.90.
2. Received $3.50 from the Central Provision Co. for lard which we returned as per agreement.
Bought meat for cash, $36.40.
Cash sales for the day per cash register, $72.19.

When these transactions have been recorded in the three accounts, add the debit side and the credit side of each account, enter the totals in small pencil figures, and prove the equality of the debits and credits by a Trial Balance of totals as in Illustration No. 4.

Exercise No. 3, Recording Transactions Direct in the Ledger.

Record on ledger paper the following transactions performed during the week beginning September 15 by Shepherd Young, who conducts the Central Cafeteria. Allow space for the accounts as follows: Cash, eleven lines; Purchases, nine lines; Sales, ten lines.

Sept. 15. Paid cash for meat, $25.50; bread, $4.75.
Received for cash sales, $37.55.
16. Paid cash for vegetables, $12.80.
Received for cash sales, $32.65.
17. Paid cash for canned goods, $13.75; meat, $15.00; bread, $5.50.
Received for cash sales, $29.90.
18. Received cash, $2.50, for canned goods returned by us as per agreement.
Received for cash sales, $31.55.
19. Paid cash for meat, $9.75; bread, $3.40.
Received for cash sales, $27.90.
20. Paid cash for vegetables, $13.50; bread, $5.60; butter, $7.55.
Received for cash sales, $44.59.

Complete in the same manner as instructed at the conclusion of Exercises Nos. 1 and 2.

§ **21. A Book of Original Entry** is one ruled to contain a record of business transactions arranged chronologically, that is, in the order of their occurrence. The information given in connection with the record of each transaction in a book of original entry should be arranged so that the value received and the value parted with may be transferred to the accounts in the ledger. The method of recording transactions in book of original entry is illustrated and explained in this and succeeding chapters.

The purpose of a book of original entry is to provide a basis for the information recorded in the ledger. When transactions are recorded direct in the ledger it is difficult to detect errors because there is no complete record of each transaction in one place. Should the bookkeeper fail to record a debit or a credit he might have difficulty in locating the error.

§ **22. The Journal** is a book of original entry. The ruling is shown in Illustration No. 6 and the method of recording transactions on this ruling, in Illustration No. 7. A comparison of these two illustrations shows that space is provided for the name of the account debited and the amount (value received), the name

Illustration No. 6, Ruling for a Page in the Journal.

EXPLANATION. The purpose of the ruling in this journal can be understood better by comparing it with that in Illustration No. 7, which contains the same form of ruling with transactions recorded. The student will observe that debits and credits are indicated by the position of the writing and figures.

of the account credited and the amount (value parted with), and the explanation of the transaction; this explanation should be so worded that one who is familiar with accounting may know that the values received and the values parted with have been correctly expressed in the record.

¶ 1. *Journalizing* is the analysis of transactions to determine which accounts shall be debited and which credited; and the recording of the names of the accounts debited and credited with the amounts in a book of original entry.

§ 23. **Posting from the Journal** is transferring the amounts from the journal to the accounts in the ledger. Each amount in the first money column is posted to the debit side of the account written on the same line with it, and each amount in the second money column is posted to the credit side of the account written on the same line with it. The posting is indicated by writing the letter "J" and the page of the journal in the folio column in the ledger, and the page of the account in the ledger in the folio column in the journal. The amounts recorded in the journal are posted to the ledger in the same order as they appear in the journal; the purpose of posting is to provide in the ledger, through accounts, a complete history of all the transactions with each asset, liability, cost and income.

The transactions recorded in Illustration No. 7, when posted to the ledger accounts, will appear as in Illustration No. 8, and a Trial Balance from these ledger accounts will appear as in Illustration No. 4 or No. 5.

RECORDING TRANSACTIONS IN THE JOURNAL

§ 24. **Transactions Are Recorded in the Journal** in the order in which they occur. A complete record of a transaction in the journal shows the date of the transaction, the name of the account debited and the amount, the name of

the account credited and the amount, and the explanation. This explanation is for the information of the bookkeeper or any person who may have occasion to examine the record. The record should show a distinction between debits and credits to facilitate posting.

The following transactions affecting the purchases and sales of merchandise for cash, performed by the soda fountain department of the Central Drug Co. during

July 2, 19—

1	Cash	39 40	
1	Sales		39 40
	Cash sales for the day		
	3		
1	Purchases	36 95	
1	Cash		36 95
	Bought syrups and Coca Cola for cash		
	3		
1	Cash	50 30	
1	Sales		50 30
	Cash sales for the day		
	5		
1	Cash	2 50	
1	Purchases		2 50
	Received $2.50 for 1 gal. ice cream returned		
	5		
1	Purchases	48 90	
1	Cash		48 90
	Bought ice cream and sandwiches for cash		
	6		
1	Cash	21 50	
1	Sales		21 50
	Cash sales for the day		
	7		
1	Sales	1 50	
1	Cash		1 50
	Paid $1.50 for 1 gal. ice cream returned		
	7		
1	Cash	62 50	
1	Sales		62 50
	Cash sales for the day		

Illustration No. 7, A Journal Page with Transactions Recorded on It.

EXPLANATION. The transactions shown recorded here are outlined on pages 17 and 18. The ledger accounts resulting from posting are shown in Illustration No. 8.

the week beginning July 2, are shown recorded in the journal in Illustration No. 7 and posted to the ledger in Illustration No. 8. These transactions are the same as those beginning on page 11.

July 2. Cash sales for the day per cash register, $39.40.

Recorded in the first entry in Illustration No. 7. The position of the writing and figures shows that Cash is debited and Sales credited.

3. Bought syrups and extracts, $5.00; Coca-Cola, $12.75; ice cream, $19.20.

Recorded in the second entry in Illustration No. 7. The position of the writing and figures shows that Purchases is debited and Cash credited.

Cash sales for the day per cash register, $50.30.

Recorded in the third entry in Illustration No. 7. The position of the writing and figures shows that Cash is debited and Sales credited.

5. Returned one gallon of ice cream purchased on the 3d, and received $2.50, the cost price, for the same.

Recorded in the fourth entry in Illustration No. 7. § 15, ¶ 1 is debited and § 17, ¶ 2 credited.

(*Concluded on page 18.*)

Cash

19—				19—			
July	2	J. 1	39 40	July	3	J. 1	36 75
	3	J. 1	50 30		5	J. 1	48 90
	5	J. 1	2 50		7	J. 1	1 50
	6	J. 1	21 50				
	7	J. 1	1 62 50				

Purchases

19—				19—			
July	3	J. 1	36 75	July	5	J. 1	2 50
	5	J. 1	48 90				

Sales

19—				19—			
July	7	J. 1	1 50	July		J. 1	39 40
						J. 1	50 30
						J. 1	21 50
						J. 1	1 62 50

Illustration No. 8, A Ledger with Three Accounts Resulting from Posting.

EXPLANATION. The accounts in this ledger are the result of posting the transactions recorded in the journal, Illustration No. 7. A comparison of the two illustrations shows that each amount entered in the first column of the journal is posted to the debit side of the account written on the same line with it, and each amount entered in the second column of the journal is posted to the credit side of the account written on the same line with it. The posting is indicated by writing the journal page (1) in the ledger, and the ledger page (1) in the journal.

*

(*Continued from page 17.*)

July 5. Bought sandwiches, $12.50; flavoring, $16.40; ice cream, $20.00.
Recorded in the fifth entry in illustration No. 7. § 17, ¶ 1 is debited and § 15, ¶ 2 credited.

6. Cash sales for the day per cash register, $21.50.
Recorded in the sixth entry in Illustration No. 7. § 15, ¶ 1 is debited and § 18, ¶ 2 credited.

7. Gave James Smith $1.50 for one-half gallon of ice cream which he returned because it was received in bad condition.
Recorded in the seventh entry in Illustration No. 7. § 18, ¶ 1 is debited and § 15, ¶ 2 credited.

Cash sales for the day per cash register, $62.50.
Recorded in the eighth entry in Illustration No. 7. § 15, ¶ 1 is debited and § 18, ¶ 2 credited.

Exercise No. 4, Recording Transactions in the Journal and Posting.

Record on journal paper* (paper with the same ruling as Illustration No. 6) the following transactions performed during the month of March by Robert Smith, a dealer in used automobiles:

March 1. Sold A. L. Lott a used Chandler for $840.00 cash.
3. Bought a used Ford from W. H. Roland for $250.00 cash.
8. Sold W. W. Jones a used 1920 Franklin for $925.00 cash.
15. Bought a used Packard from Robert MacFarland for $980.00 cash.
19. Sold Davis Bros. the used Packard purchased on the 15th, for $1,200.00 cash.
25. Bought a used Hudson from David Browning at Danville for $950.00 cash; paid Charlie Smith $25.00 for delivering this car.
31. Sold B. M. Morris the used Hudson purchased on the 25th, for $1,250.00 cash.

When the above transactions have been recorded in the journal as instructed, open accounts on a sheet of ledger paper with Cash (8), Purchases (7), and Sales (8), allowing for each account the number of lines indicated by the number given in parenthesis after the name of the account; post the transactions, and prove the posting by a Trial Balance of balances.

Exercise No. 5, Recording Transactions in the Journal and Posting.

Record on journal paper* the following cash transactions performed by the H. F. Ritter Electric Co. during the month of August:

Aug. 1. Sold M. N. Stewart a No. 9 electric washer, $135.50.
2. Sold A. L. Graham three Solvay electric fans, $99.75.
5. Bought three electric lamps from the General Electric Co., $85.70.
9. Received $275.00 from the Dowell Construction Co. in payment for one No. 10 electric washer.
12. Bought two electric washers from the General Electric Co., $325.00.
16. Sold Mrs. J. M. Taylor one electric iron, $13.50.
18. Sold Mrs. A. L. Day one electric lamp, $42.50.
21. Gave H. L. Jones $5.50 for an electric iron which he purchased for cash and returned per agreement.

(*Concluded on page 19.*)

*See note at bottom of page 13.

(*Continued from page 18.*)

Aug. 25. Sold Dr. C. C. Doyle one No. 5 electric pad, $22.50; one No. 6 Violet Ray machine, $35.00.
26. Sold E. E. Erblang one No. 10 electric flashlight, $2.50; one extra battery for the same, 50c.
28. Received $12.50 from the General Electric Co. for a lamp which we purchased from them on the 5th, but returned because it was not the kind ordered.
31. Gave E. E. Erblang $3.00 for the flashlight and battery sold him on the 26th and returned per agreement.

When the above transactions have been recorded in the journal as instructed, open accounts on a sheet of ledger paper with Cash (12), Purchases (6), and Sales (11), allowing for each account the number of lines indicated; post the transactions, and prove the posting by a Trial Balance of totals.

Exercise No. 6, Recording Transactions in the Journal and Posting.

Record on journal paper the following transactions performed during the month of March by Martin R. Daley, a retail furniture dealer:

March 1. Sold for cash one bedroom suite, $175.00; one dining room suite, $196.50.
5. Paid cash for furniture purchased, $209.60.
10. Paid $18.75 cash, freight on furniture purchased.
12. Received cash for six rugs sold, $205.75.
Paid cash for furniture purchased, $172.60.
15. Gave a customer cash, $5.50, for a chair returned as per agreement.
18. Paid cash for furniture purchased, $82.50.
21. Received $14.75 cash for three small rugs returned by us to the seller as per agreement.
25. Sold for cash one refrigerator, $55.00; one gas range, $47.50; one kitchen cabinet, $65.00.
30. Paid the American Railway Express Co. cash, $2.50, for express charges on furniture purchased.

When the above transactions have been recorded in the journal as instructed, open accounts on a sheet of ledger paper with Cash (10), Purchases (9), and Sales (7), allowing for each account the number of lines indicated; post the transactions and prove the posting by a Trial Balance of balances.

QUESTIONS

1. What is the purpose of an account?
2. In what order are the transactions recorded?
3. State the two methods of recording transactions.
4. How is a cash sale recorded (a) in the journal and (b) direct in the ledger?
5. Which is preferable, a bound book or a loose-leaf book?
6. If a merchant wishes to know the total sales of merchandise for any given number of months, from which book of account would he obtain the information? from what account?
7. If a drug store has five departments, would it be necessary to maintain a Cash account for each department? Give reasons for your answer.
8. Would it be necessary to keep a separate record of the sales made by each of the five departments mentioned in Question No. 7?

9. If you were keeping books for a local merchant and, when you proved cash at the close of January 10, you found that you had $2.00 more cash than the amount shown by the Cash account, what entry would you make for the $2.00?
10. Why will the Sales account always show a credit balance?
11. Why will the Purchases account always show a debit balance?
12. Why will the Cash account always show a debit balance?
13. Why does the Trial Balance prove that the total debits equal the total credits in the ledger?
14. If $10.00 cash is received for a sale of merchandise and the amount is erroneously entered on the credit side of the Purchases account instead of the Sales account, how would it affect the Trial Balance?
15. How would the error mentioned in Question 14 affect the balance of the Purchases account? the Sales account?
16. If the debits and credits on the Trial Balance are not equal, how does the bookkeeper who has recorded the transactions separate from the ledger ascertain the error?
17. Why is it advisable to give an explanation of each entry in the journal?
18. If $10.10 cash is received for merchandise sold and recorded in the journal as Cash, Dr., $10.00, and Sales, Cr., $10.10, what effect will this have on the Trial Balance if the entry is posted as recorded?
19. What does a telephone company sell?
20. Would these sales be recorded in a Sales account?
21. Would the bookkeeper for a city government have a Sales account in his ledger?
22. Would the farmer who keeps a record of the transactions he performs have a Sales account in his ledger?
23. If a merchant discontinues business and sells all the merchandise which he owns, what will the balance of the Sales account show?
24. Under the conditions mentioned in Question No. 23, what would the balance of the Purchases account show?
25. If a grocer buys an automobile truck to be used in delivering merchandise, would the value of this truck be debited to the Purchases account? Give reasons for your answer.

Chapter III

RECORDING TRANSACTIONS—Continued

§ 25. Purchases and Sales of Merchandise on Account. When the owner of a business purchases merchandise with the agreement that it is to be paid for at a later date, he incurs an obligation or a liability. The transaction will be recorded in the same manner as if he had paid cash except the name of the person or business from whom the merchandise is purchased will be credited in place of cash; when the obligation is paid as per agreement, the account with the person or business will be debited and Cash credited. The value received in the first transaction is the merchandise purchased, and the value parted with, the promise to pay the liability incurred. The value received in the second transaction is the cancellation of the obligation, and the value parted with, the cash.

When the owner of a business sells his merchandise with the agreement that it is to be paid for at a later date, he extends credit to the one who purchases the merchandise. A transaction of this nature will be recorded in the same manner as when cash is received, except that the name of the person who purchases the merchandise will be debited instead of Cash; when the owner of the business receives cash from the one to whom he has extended credit, he debits Cash and credits the account with the person. The value received in the first transaction is the promise of the person to whom the merchandise is sold, and the value parted with, the merchandise; the value received in the second transaction is cash, and the value parted with, the cancellation of the obligation of the one to whom the merchandise was sold.

Purchases and sales of merchandise where cash is not involved are referred to as "on account," possibly because the account with the person takes the place of cash until the amount is paid. The owner of the business regards those who extend credit to him as his creditors, and those to whom he extends credit as his customers; the term "customer" also applies to those from whom cash is received at the time the sale is made.

ACCOUNTS WITH PERSONS

§ 26. Accounts with Persons are those required when credit is extended to the business through the purchase of merchandise, or when the business extends credit to its customers through the sale of merchandise. Accounts with persons are divided into two classes: one (accounts with customers) shows the result of transactions with the persons to whom the business sells merchandise or other assets on account, usually referred to as "accounts receivable"; and the other (accounts with creditors) shows the result of transactions with those from whom merchandise is purchased on account, usually referred to as "accounts payable."

ACCOUNTS RECEIVABLE

§ 27. The Purpose of an Account with a Customer is to show the balance due from the customer as a result of the transactions in which the business sells merchandise to him on account. When a customer pays cash for merchandise, it is not necessary to record the transactions in an account with him; but when he buys and does not pay cash, it is necessary to record the date and amount of the sale in an account with him so that the owner may know the amount the cus-

tomer owes him when settlement is desired. A separate account is kept with each customer because the owner of the business should know the amount due from each customer to whom he sells on account as well as the total amount due from all customers. The address of each customer should be given in connection with the title of his account; this includes street, number, city, and state.

Debit the Account of Each Customer:

¶ 1. For the selling price of merchandise sold to him on account, and for prepaid transportation charges if the terms of sale do not include delivery.

Credit the Account of Each Customer:

¶ 2. For the cash or other assets received from him to apply on account, and for the amount of any allowance or deduction granted to him. Partial payments are indicated as explained in ¶ 5.

¶ 3. *The Balance of an Account Receivable* shows the amount the customer owes the business. It is one of the assets of the business. The debit side will be the larger unless the customer should pay for more than he has purchased. When the two sides are equal, his account is said to be in balance; this indicates that he has paid for all the merchandise sold him on account.

¶ 4. *Ruling an Account Receivable.* When the account with a customer is in balance, it should be ruled with a single red line on each side, across the money columns only, as in the account with Walter Rogers in Illustration No. 9; the lines should be drawn on the same blue line on each side when possible. If there are a number of debits or credits, the two sides should be footed with small pencil figures to prove that they are equal before ruling as in the account with People's Hotel on page 71. The use of red ink for ruling is not arbitrary but it is customary for bookkeepers to use it, hence its use in the illustrations.

¶ 5. *Partial Payments.* A debtor has the right, by law, to indicate on what item his payment shall be applied. Thus if he owes several amounts and wishes the payment to be applied to any one particular amount, and indicates this, the credit must be applied on that amount. In cases of this kind the bookkeeper should indicate the amount on which the credit is applied by placing a letter at the left of the amount of the item on the debit side, and placing the same letter to the left of the amount of each payment on the credit side. It is best to begin with "a" and continue with as many letters as may be required for payments on different debits. The letters are not necessary when an item is paid in full by one payment, and the account is ruled. If the payments are indicated by letter as explained, the bookkeeper can ascertain the amount due for any one sale without referring to a book of original entry. The use of the letters as explained here is illustrated in the personal accounts on pages 70, 71 and 72.

Those to whom the business sells merchandise on account are referred to as "trade customers" and those from whom it buys merchandise on account as "trade creditors." Property other than merchandise may be bought or sold on account; such sales and purchases are recorded in personal accounts in the same manner as sales and purchases of merchandise.

ACCOUNTS PAYABLE

§ 28. **The Purpose of an Account with a Creditor** is to show the balance due from the creditor as a result of the transactions in which the business buys merchandise from him on account. When merchandise is purchased for cash, no account with the one from whom it is purchased is necessary because the transaction is completed; but when the business buys on account, it is necessary to keep a record of such transactions in order that the owner may know the amount he

owes at the time settlement is made. A separate account is kept with each creditor because the owner of the business should know the amount he owes each creditor as well as the total amount due all creditors.

Debit the Account of Each Creditor:

¶ 1. For cash or other assets of the business given him to apply on account, and for any allowance or deduction granted to the business by him. Partial payments are indicated as explained in § 27, ¶ 5.

Credit the Account of Each Creditor:

¶ 2. For the cost of merchandise purchased from him on account, and for prepaid transportation charges if the terms of purchase do not include delivery.

¶ 3. *The Balance of an Account Payable* shows the amount the business owes the creditor. The credit side will be the larger unless the business should pay a creditor more than it owes him. The balance due a creditor is one of the verbal obligations of the business, hence a liability.

¶ 4. *Ruling an Account Payable.* The account with a creditor is ruled in the same manner as an account with a customer, as described in § 27, ¶ 4.

¶ 5. *Partial Payments* should be indicated by letter as explained in § 27, ¶ 5. This enables the bookkeeper to ascertain the balance due on any one purchase without referring to a book of original entry.

RECORDING TRANSACTIONS DIRECT IN THE LEDGER

§ 29. **Transactions** with customers and creditors on account may be recorded direct in the ledger in the same manner as cash transactions. When credit is extended to a customer of the business, his promise to pay the amount of the sale is recorded on the debit side of his account as the value received, and the value of the merchandise sold, on the credit side of the Sales account in the same manner as a cash sale. When credit is extended to the business, the cost of the merchandise purchased is recorded on the debit side of the Purchases account in the same manner as a cash purchase, and the same amount is recorded on the credit side of the creditor's account because the promise of the owner of the business to pay for the merchandise bought is regarded as the value parted with. The account with a customer remains on the ledger as an asset, and that with a creditor as a liability, until settlement is made, either with cash or some other asset.

The following transactions affecting the purchases and sales of merchandise for cash and on account, performed by J. H. Henderson, a retail furniture dealer, during the month of November, are shown recorded direct in accounts with Cash, customers, creditors, Purchases, and Sales in Illustration No. 9 and a Trial Balance of totals made from the accounts, in Illustration No. 10.

Nov. 1. Purchased furniture from the Consolidated Furniture Co., Grand Rapids, on sixty days' time, $215.75.
2. Sold C. H. Powers, Arlington, on account, one bedroom suite, $125.00.
6. Sold Walter Rogers, City, on account, one hatrack, $22.50.
12. Received cash for furniture sold today, $625.50.
14. Paid the Consolidated Furniture Co. $100.00 on account.
20. Received $22.50 from Walter Rogers in payment for the hatrack sold him on the 6th.
25. Received $25.00 from C. H. Powers to apply on account.
26. Sold C. H. Powers on account three leather rockers at $25.50 each.
29. C. H. Powers returned one rocker and was allowed credit for $25.50.

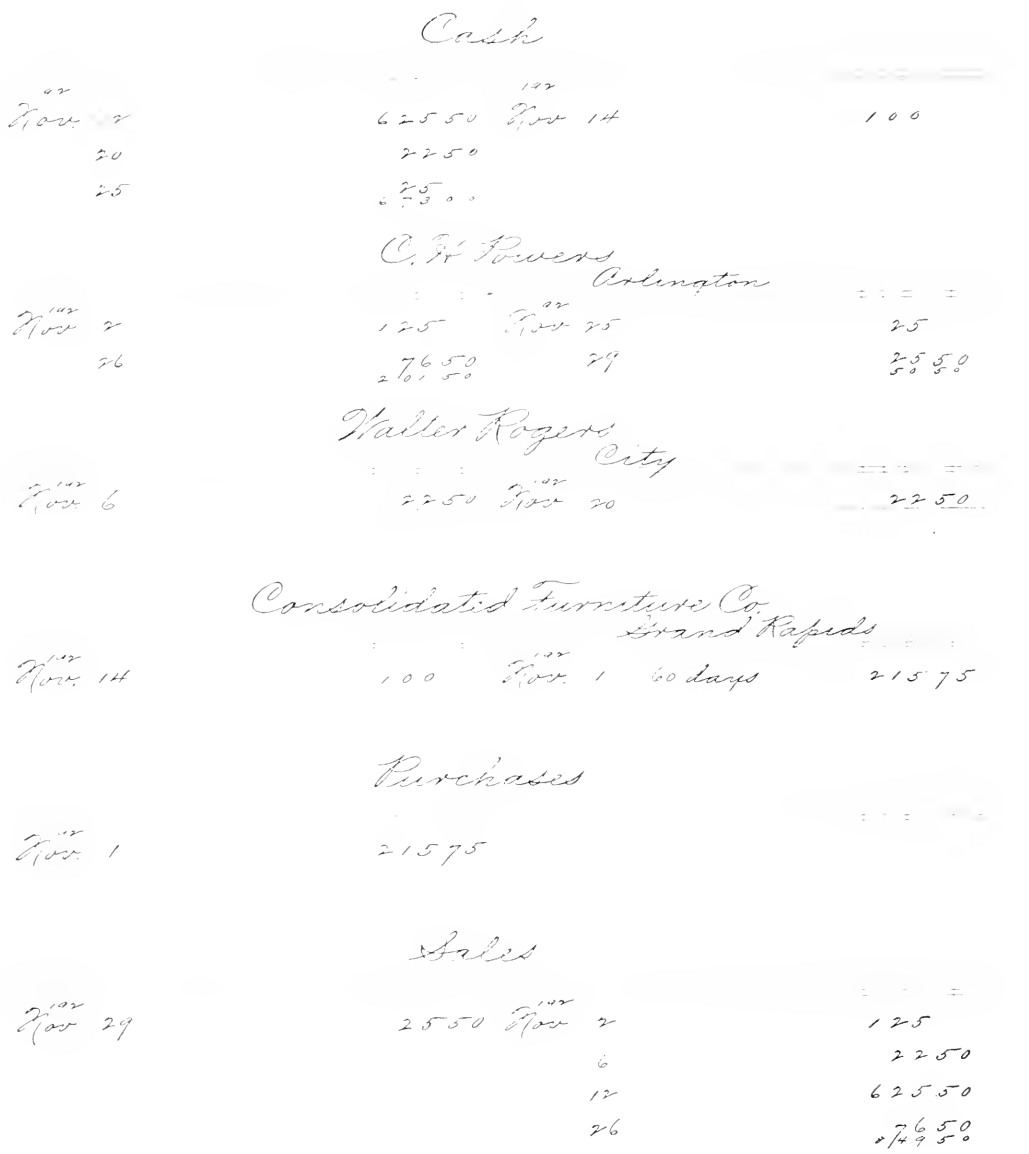


Illustration No. 9, A Ledger with Six Accounts.

EXPLANATION. This illustration is in the same form as Illustration No. 3, with the exception of three additional accounts, two with customers and one with a creditor. A comparison of the transactions with the record will show that the value received in each is recorded on the debit side, and the value parted with on the credit side. The "60 days" in the explanation column of the account with the Consolidated Furniture Co. refers to the time when payment is to be made. Since the purchase is on November 1, payment will be expected on December 31. When no specific time of settlement is mentioned, the purchase or sale is sometimes referred to as "on account," and settlement is usually required on the first of the month following the purchase or sale.

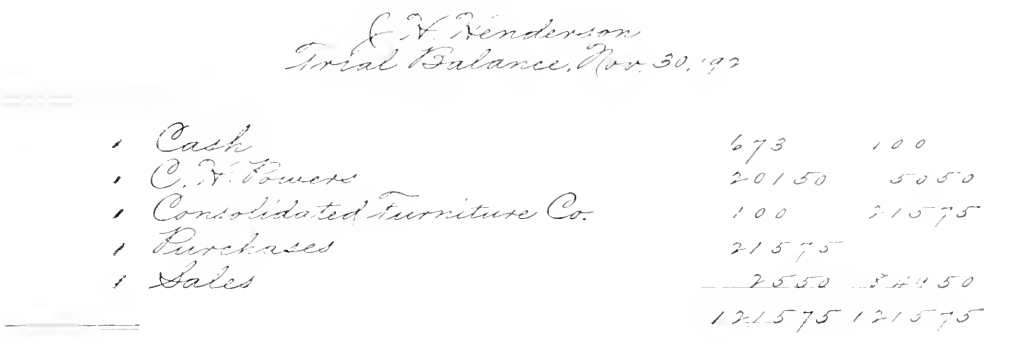

E. N. Henderson
Trial Balance, Nov. 30, 19-
Cash 673 100
C. F. Powers 201 50 50 50
Consolidated Furniture Co. 100 215 75
Purchases 215 75
Sales 25 50 340 50
121 575 121 575

Illustration No. 10, A Trial Balance of Totals.

EXPLANATION. This Trial Balance, which is prepared from the ledger in Illustration No. 9, is the same form as Illustration No. 4 with the addition of two personal accounts. By comparing this illustration with Illustration No. 9, it will be observed that the account with Walter Rogers does not appear on the Trial Balance. The reason for this is that the amounts recorded on the debit and credit sides are equal. This explains the statement in § 20 that only the open accounts in the ledger appear on the Trial Balance.

Exercise No. 7, Recording Transactions Direct in the Ledger.

Record on ledger paper* the following transactions performed during the month of October by J. J. Hammond, a retail shoe dealer. Allow space for the accounts as follows: Cash, ten lines; Purchases, ten lines; Sales, ten lines; J. C. Mason, Walter Love, J. C. Miller, Robert Whitacre, W. O. Crosswhite, Davis Bros., and Smith Shoe Co., each four lines. Give each customer and creditor a local address.

Oct. 2. Bought shoes from W. O. Crosswhite on account, $187.65.
3. Sold J. C. Mason on account one pair of shoes, $11.50.
5. Bought shoes from Davis Bros. on account $281.36.
7. Received for cash sales of shoes, $127.50.
9. Paid W. O. Crosswhite $100.00 on account.
10. Sold Walter Love on account six pairs of shoes, $56.50.
11. Bought shoes from the Smith Shoe Company on sixty days' time, $211.85.
12. Received for cash sales of shoes, $97.50.
13. Paid W. O. Crosswhite $87.65 in full of account.
14. Sold J. C. Miller on account two pairs of shoes, $25.25.
16. Received for cash sales of shoes, $106.95.
17. Allowed Walter Love credit for one pair of shoes returned, $17.50.
18. Bought shoes from W. O. Crosswhite on account, $321.85.
19. Paid $82.50 for shoes purchased and delivered today.
20. Paid Mrs. W. C. Davis $6.00 for a pair of shoes returned for which she had paid cash when sold to her.
23. Received $39.00 from Walter Love in full of account.
25. Paid the Smith Shoe Company $25.00 on account.
26. Received for cash sales of shoes, $88.90.
27. Paid the Santa Fe Railroad $65.50 for freight on shoes purchased.
28. Sold Robert Whitacre one pair of shoes on account, $15.00.
30. Bought shoes from the Smith Shoe Company on sixty days' time, $175.75.
31. Davis Bros. allowed us credit for $62.50 for shoes returned to them.

When these transactions have been recorded in the accounts, prove the equality of the debits and credits by a Trial Balance of totals.

*See note at the bottom of page 13.

Exercise No. 8, Recording Transactions Direct in the Ledger.

Record on ledger paper the following transactions performed by F. B. Bellis, a retail candy merchant, during the week beginning July 5. Allow space for the accounts as follows: Cash, ten lines; Purchases, ten lines; Sales, ten lines; Candy Kitchen, seven lines; Robert Farland, five lines; Norway Candy Co., six lines; R. H. Hunter, five lines. Give each person a local street address.

July 5. Purchased from the Candy Kitchen, City, on account, $65.84.
Cash sales for the day, $62.48.

6. Paid cash for nuts purchased, $9.50.
Cash sales for the day, $55.80.

7. Sold Robert Farland, City, on account, six boxes of candy at* $2.75.
Purchased from the Norway Candy Co., City, on account, $32.75.
Cash sales for the day, $41.90.

8. Paid the Candy Kitchen $50.00 on account.
Paid a customer $1.00 for a box of candy which he had purchased for cash and returned per agreement.
Cash sales for the day, $41.80.

9. Received $10.00 from Robert Farland on account.
Sold R. H. Hunter, City, on account, twelve boxes of candy at* $2.25.
Purchased from the Candy Kitchen, City, on account, $61.50.
Cash sales for the day, $52.80.

10. Paid cash for chewing gum, $5.00.
Paid the Candy Kitchen $25.00 on account.
Purchased from the Norway Candy Co., City, on account, $26.95.
Returned to the Candy Kitchen six boxes of candy purchased on the 9th and received credit for the same at $1.75 per box, the cost price.
Cash sales for the day, $101.19.

When these transactions have been recorded in the accounts, prove the equality of the debits and credits by a Trial Balance of balances.

RECORDING TRANSACTIONS IN THE JOURNAL

§ **30. Transactions** with customers and with creditors may be recorded in the journal in the same manner as cash transactions. When credit is extended to a customer, his name is written in the journal as the account debited, and the Sales account credited; when credit is extended to the business, the Purchases account is debited, and the name of the creditor is written as the account credited. The owner should have a record of the articles sold on account; this information may be obtained by retaining a copy of the list given the customer, or writing the names of the articles in connection with the explanation in the journal. It is not necessary to itemize the articles purchased in the explanation of the transaction in the journal because the creditor provides a list of these articles.

The following transactions affecting the purchases and sales of merchandise for cash and on account, performed by J. H. Henderson, a retail furniture dealer, during the month of November, are shown recorded in the journal in Illustration No. 11 and posted to the ledger in Illustration No. 12. These transactions are the same as those on page 23.

Nov. 1. Purchased furniture from the Consolidated Furniture Co., Grand Rapids, on sixty days' time, $215.75.

2. Sold C. H. Powers, Arlington, on account, one bedroom suite, $125.00.

6. Sold Walter Rogers, City, on account, one hatrack, $22.50.

(*Concluded on page 28.*)

*NOTE. The word "at," appearing before the price, indicates that this price is per unit; if this word does not appear, the price given applies to the quantity mentioned. "Six boxes candy at $2.75" means that the amount of the sale is $16.50. "Six boxes candy, $2.75," means that the amount of the sale is $2.75.

November, 19--

	Purchases	215 75	
1	Consolidated Furniture Co		215 75
	Bought furniture on 10 days time.		
1	C. H. Powers	1 25	
1	Sales		1 25
	Sold 1 bedroom suite on account		
	6		
1	Walter Rogers	22 50	
1	Sales		22 50
	Sold 1 bureau on account		
	12		
1	Cash	20 50	
1	Sales		20 50
	Cash sales of furniture		
	14		
1	Consolidated Furniture Co	1 00	
1	Cash		1 00
	Paid cash to apply on account		
	20		
1	Cash	22 50	
1	Walter Rogers		22 50
	Received cash in full of account		
	25		
1	Cash	2 50	
1	C. H. Powers		2 50
	Received cash to apply on account		
	29		
1	C. H. Powers	70 50	
1	Sales		70 50
	Sold on account 3 rockers at 3 25 ea.		
	29		
1	Sales	20 50	
1	C. H. Powers		20 50
	Allowed credit for one rocker returned		

Illustration No. 11, A Journal Page with Transactions Recorded on It.

EXPLANATION. The numbers in the folio column indicate the page of the ledger to which each entry is posted. These numbers are not entered when the transactions are recorded in the journal, but at the time the amounts are posted to the ledger accounts.

(*Continued from page 26.*)

Nov. 12. Received cash for furniture sold today, $625.50.
14. Paid the Consolidated Furniture Co. $100.00 on account.
20. Received $22.50 from Walter Rogers in payment for the hatrack sold him on the 6th.
25. Received $25.00 from C. H. Powers to apply on account.
26. Sold C. H. Powers on account three leather rockers at $25.50 each.
29. C. H. Powers returned one rocker and was allowed credit for $25.50.

Cash

19—				19—			
Nov.	12	J1	625 50	Nov.	14	J1	100
	20	J1	22 50				
	25	J1	25 00				

C. H. Powers
Arlington

19—				19—			
Nov.	2	J1	125	Nov.	25	J1	25
	26	J1	76 50		29	J1	25 50

Walter Rogers
City

19—				19—			
Nov.	6	J1	22 50	Nov.	20	J1	22 50

Consolidated Furniture Co
Grand Rapids

19—				19—			
Nov.	14	J1	100	Nov.	1	60 days J1	215 75

Purchases

19—			
Nov.	1	J1	215 75

Sales

19—				19—			
Nov.	29	J1	25 50	Nov.	2	J1	125
					6	J1	22 50
					12	J1	625 50
					26	J1	87 50

Illustration No. 12, A Ledger with Six Accounts Resulting from Posting.

EXPLANATION. The transactions in this ledger were not recorded direct in it, but were recorded in the journal shown in Illustration No. 11 and posted, as indicated by the figures in the folio column of each account. Compare with Illustration No. 9 and note the additional information. A Trial Balance of totals taken from this ledger would be the same as Illustration No. 10

Exercise No. 9, Recording Transactions in the Journal and Posting.

Record on journal paper the following transactions performed by the Central Paper Co. during the month of February. Give each customer and creditor a local address.

Feb. 1. Purchased paper from the Whiting Paper Co. on account, $350.00.
2. Sold paper to the Federal Press on account, $126.50.
3. Received $352.10 for paper sold today.
5. Purchased envelopes from the U. S. Envelope Co. on account, $207.60.
6. Received $126.50 from the Federal Press in full of account.
7. Sold paper to C. J. Krehbiel & Co. on account, $200.25.
9. Paid the Whiting Paper Co. $150.00 on account.
12. Purchased paper from the Whitaker Paper Co. on account, $409.37.
14. Paid $106.16 for freight and drayage bills to date.
16. Sold paper to C. W. Ogden on account, $98.66.
19. Received credit from the U. S. Envelope Co. for $36.50, value of envelopes returned by us per agreement.
20. Received for cash sales of paper today, $191.96.
21. Received $200.25 from C. J. Krehbiel & Co. in full of account.
23. Sold paper and envelopes to the Federal Press on account, $161.52.
24. Allowed C. W. Ogden credit for paper returned, $12.50.
26. Paid the Herrlinger Paper Co. $76.60 for paper delivered today.
27. Sold paper and envelopes to C. J. Krehbiel & Co. on account, $112.60.
28. Paid the U. S. Envelope Co. balance due on account, $171.10.
Received $40.00 from C. W. Ogden on account.

When the above transactions have been recorded in the journal as instructed, open accounts on a sheet of ledger paper with Cash (9), Purchases (9), Sales (11), Federal Press (5), C. J. Krehbiel & Co. (5), C. W. Ogden (5), Whiting Paper Co. (5), U. S. Envelope Co. (5), Whitaker Paper Co. (5), allowing for each account the number of lines indicated; post the transactions, and prove the posting by a Trial Balance of totals.

Exercise No. 10, Recording Transactions in the Journal and Posting.

Record on journal paper the following transactions performed during the month of May by J. O. Cutshaw, an automobile tire dealer:

May 1. Purchased from the Goodyear Tire Co., City, on account, $355.00.
3. Received cash for four Goodyear 33 x 4 cord tires, $215.60.
5. Purchased from the Goodrich Tire Co., City, on account, $525.50.
Sold the Central Grocery Co., City, on account, two Ford tires, $32.65.
7. Received cash for one 35 x 5 Silvertown cord tire, $67.50.
10. Paid the Goodyear Tire Co. $200.00 on account.
12. Sold I. W. Walker, City, on account, four Miller cord tires at $52.45.
13. Gave I. W. Walker credit for one of the tires sold him on the 12th and returned by him today per agreement.
14. Received for cash sales of tires. $278.50.
16. Received $32.65 from the Central Grocery Co. in full of account.
20. Sold W. L. Watson, City, on account, two 33 x 4 Fisk cord tires at $48.00; these tires are not carried in stock and were purchased from the Fisk Tire Co., City, on account, at $36.00.
Record the sale and purchase as separate transactions.

(*Concluded on page 30.*)

(*Exercise No. 10—Continued from page 29.*)

May 25. Sold David Jordan, City, on account, two 32 x 4 Silvertown cord tires at $41.60 each.
26. Paid the Goodrich Tire Co. $200.00 on account.
27. Received $50.00 from W. L. Watson to apply on account.
28. Paid the Fisk Tire Co. $72.00 in full of account.
Returned to the Goodrich Tire Co. two 32 x 4 fabric tires and received credit for $34.60.
31. Received for cash sales of tires, $315.50.
Purchased from the Goodyear Tire Co., City, on account, $452.40.

When the above transactions have been recorded in the journal as instructed, open accounts on a sheet of ledger paper with Cash (10), Purchases (8), Sales (12), Goodyear Tire Co. (5), Goodrich Tire Co. (4), Fisk Tire Co. (4), Central Grocery Co. (4), I. W. Walker (4), W. L. Watson (4), David Jordan (4), allowing for each account the number of lines indicated; post the transactions, and prove the posting by a Trial Balance of balances.

QUESTIONS

1. If a merchant buys merchandise on March 2, 1922, with the privilege of paying for the same within sixty days, on what date will he be required to pay the amount?
2. Why is it not necessary to keep an account with the person to whom the business sells for cash?
3. Is an amount due from a customer one of the assets of the business?
4. Would you consider the asset of the business described as "Accounts Receivable" as valuable as the asset described as "Cash"? Give reasons.
5. Distinguish between the meaning of the terms "creditor" and "customer."
6. Why is it necessary for the bookkeeper to indicate payments made to apply on merchandise purchased or sold on a designated date?
7. Would it be possible for an account with a customer to show a credit balance? Explain.
8. Would it be possible for an account with a creditor to show a debit balance? Explain.
9. Why is it advisable to rule an account receivable or an account payable when the two sides are equal?
10. Open an account with Robert Jones, a customer of the business, and record the following transactions in it:
Jan. 10. Sold merchandise on account, $425.00.
15. Received $100.00 to apply on account.
20. Sold merchandise on account, $72.50.
31. Received $200.00 to apply on sale of the 10th.
Feb. 10. Received $72.50 in full for sale of Jan. 20.
11. Why is it not necessary to show on the Trial Balance an account which is in balance?
12. What effect would it have on the Trial Balance if an account which shows a debit balance of $10.00 was omitted because it was ruled by mistake?
13. What accounts are affected when the business receives cash from a customer in part payment of his account?
14. What accounts are affected when cash is paid to a creditor to apply on an account owed him?

15. If a sale made to a customer on account should not be recorded, would this affect the equality of the debits and credits on the Trial Balance?
16. Can you suggest a plan which would avoid the possibility of failing to record transactions in which merchandise is sold on account?
17. If a sale is made to a customer for cash and the transaction is not recorded, how would the bookkeeper detect the error?
18. If cash is received from a customer in payment of his account, and the transaction is not recorded, how would the bookkeeper detect the error?
19. If merchandise is purchased from a creditor on account and the transaction is not recorded, how would the bookkeeper detect the error?
20. If cash is paid for merchandise purchased and the transaction is not recorded, how would the bookkeeper detect the error?
21. If a sale is made to one customer and by mistake debited to another customer, will this affect the equality of the debits and credits on the Trial Balance?
22. How would the bookkeeper detect the error mentioned in the preceding question?
23. If a customer's account, which is not in balance, is ruled by mistake, how would the bookkeeper discover the error?
24. Why is it advisable to indicate the address of a customer on his account in the ledger?
25. If the two sides of the Trial Balance are not equal, how would the bookkeeper ascertain the error?

Chapter IV

RECORDING TRANSACTIONS—Continued

§ 31. **Expense.** Each business has a building or place in which to carry on its operations; this building or place of business is provided with heat and light; modern business requires the use of the telephone, telegraph, and other means of rapid communication; clerks are employed to assist with the purchasing and selling of the merchandise or service which the business sells; bookkeepers and stenographers are required in connection with the office operations; the owner receives a compensation for his services in connection with the operations of the business; these and many other services must be purchased and paid for by the business. Such services are usually referred to as the "operating cost" of the business, also as the "expenses" of the business.

The term "expenses" also includes any material purchased by the business which will be consumed by its use; this class of material includes books of account for use in the office, stationery, wrapping paper, twine, nails for packing cases, etc. The cost of material regarded as expense is usually shown in an account separate from the amounts paid for services; this will be discussed later in more detail.

A record of the payments for operating cost (expenses) is made in one or more expense accounts, depending on the nature of the expenses and the extent of the business operations. When cash is given in payment for services or property which is regarded as an expense item, the account which is to show a record of this operating cost is debited and the Cash account credited; should an asset other than cash be given in payment, the account which shows the value of the asset parted with is credited instead of the Cash account.

EXPENSE ACCOUNT

§ 32. **The Purpose of this Account** is to show the cost of operating the business, that is, its expenses. If all operating cost is debited to one account, the total cost of the business operations will be shown in this account. The debit and credit given below refer to only one Expense account.

Debit the Expense Account:	*Credit the Expense Account:*
¶ 1. For amounts paid for operating cost as outlined in § 31.	¶ 2. For any adjustments* which reduce the operating cost as shown by the debit side of this account.

¶ 3. *The Balance of this Account* shows the operating cost of the business for the period covered by the debits and credits to the account. The total expense is a deduction from the profit made by the operations of the business.

§ 33. **Capital.** It is usually necessary for the owner of the business to invest cash or other property at the beginning of the business, because, if the business is

*NOTE. The term "adjustment" used in connection with the credits to the Expense account refers to those transactions which reduce the cost of operating the business. If the cost of stamps is debited to the Expense account, and a part of these stamps is sold, Cash or the asset received is debited, and Expense credited because the amount received reduces the expense cost.

to supply a demand, it must have on hand those things which its customers will wish to purchase. The cash or other property which the owner assigns to the operations of the business at its beginning or at any time subsequent thereto is regarded as an investment in the business and referred to as the "invested capital of the business." If the operations of the business are successful—that is, if the costs are less than the income—the interest of the owner (proprietorship) will be increased by this profit; if the result of operating the business is a loss, the interest of the owner (proprietorship) will be decreased by this loss. Once each year it is necessary for the owner of the business to ascertain the profit or loss resulting from the operations of the business during the year because of the governmental tax on income. If the business has been operated at a profit, the owner's capital is increased the amount of this profit; if the business has been operated at a loss, the owner's capital is decreased the amount of the loss.

The owner may, if he desires, withdraw part of his capital; the withdrawal of a part of his capital will decrease his proprietorship in the business. Should the owner take cash, merchandise or other assets from the business as a remuneration for his services in connection with the operations of the business, the value of these withdrawals is debited to Expense in the same manner as amounts paid for the salaries of clerks and other employees. If desired, the owner may be debited for the value of the property which he takes from the business and credited with the salary he is to receive as compensation; the title of this account would be the name of the owner with the word "personal" written after it. The owner's personal account is debited with withdrawals and credited with the salary; the balance, if a debit, will show the amount he has withdrawn in excess of his salary, and if a credit, the amount of salary yet to be withdrawn. Under no circumstances should withdrawals for services be debited to the Capital account.

CAPITAL ACCOUNT

§ 34. **The Purpose of this Account** is to show the result of transactions which the business has with the owner of the business as they relate to investments and withdrawals.

Debit the Capital Account:

¶ 1. For debts of the owner assumed at the beginning of the business.

¶ 2. For amounts withdrawn from the capital invested.

¶ 3 For the net loss at the end of the business year.

Credit the Capital Account:

¶ 4. For cash or other assets invested at the beginning of the business.

¶ 5. For subsequent investments.

¶ 6. For the net profit at the end of the business year.

¶ 7. *The Balance of this Account,* shows the owner's interest in the business, that is, his proprietorship or net investment.

RECORDING TRANSACTIONS DIRECT IN THE LEDGER

§ 35. **The Complete Operations** of a business include transactions which relate to the investment at the beginning of the business, the purchases and sales of merchandise, and the payment of operating expenses. All of these transactions may be recorded direct in the ledger as explained in §§ 19 and 29.

The following transactions relative to the complete operations of a business (including investment, operating cost, and purchases and sales of merchandise for

*

(*Concluded on page 35.*)

Cash

19–			19–		
Oct.	1	1000	Oct.	24	200
	10	10 75 50		31	2 50

E. B. Moore
305 Elm St, City

19–		
Oct.	18	75

J. W. Macon
222 Main St, City

19–		
Oct.	28	127 50

A. R. King
Clinton

19–		19–	
Oct.	24 200	Oct.	7 317 65

M. E. Studebaker, Capital

19–		
Oct.	1	1000

Sales

19–		
Oct.	10	75 50
	18	75
	28	127 50
		278 00

Purchases

19–		
Oct.	7	317 65

Expense

19–		
Oct.	31	50

Illustration No. 13, A Ledger with Eight Accounts.

EXPLANATION. This ledger contains a record of the transactions outlined in § 35, recorded direct in the ledger. It is the same as Illustrations No. 3 and No. 9 with the addition of accounts with the owner and Expense. Whether only a part or all of the transactions in connection with the operations of a business are recorded, each transaction affects two accounts, one showing the value received recorded on the debit side and the other the value parted with recorded on the credit side. The same amount in each transaction is recorded on the debit side of one account and on the credit side of another account.

cash and on account), performed by M. E. Studebaker during the month of October, are shown recorded direct in accounts with Cash, customers, creditors, Capital, Sales, Purchases, and Expense in Illustration No. 13. A Trial Balance of balances made from these accounts is shown in Illustration No. 14.

Oct. 1. M. E. Studebaker invested $1,000.00 in the office supplies business.
7. Purchased from A. R. King, Clinton, on account, merchandise, $317.65.
10. Received $75.50 for cash sales of merchandise.
18. Sold E. B. Moore, 305 Elm St., City, on account, one desk, $75.00.
24. Paid A. R. King $200.00 on account.
28. Sold J. W. Macon, 222 Main St., City, on account, three files, $127.50.
31. Paid rent of store, $50.00.

M. E. Studebaker
Trial Balance, October 31, 19--

Cash	822 50	
E. B. Moore	75	
J. W. Macon	127 50	
A. R. King		117 65
M. E. Studebaker, Capital		1000
Sales		278
Purchases	317 65	
Expense	50	
	1395 65	1395 65

Illustration No. 14, A Trial Balance of Balances Made from the Ledger Accounts in Illustration No. 13.

Exercise No. 11, Recording Transactions Direct in the Ledger.

Record on ledger paper the following transactions performed during the first half of May by R. H. Gillespie, a retail clothing dealer. Allow space for the accounts as follows: Cash, eight lines; Purchases, nine lines; Sales, eight lines; Expense, six lines; R. H. Gillespie, Capital, five lines; A. C. Dugan, A. R. Isaacs, Charles Heaney, Davis Bros., Globe Clothing Co., and Pope Clothing Co., each four lines. Give each customer and creditor a local address.

May 1. R. H. Gillespie invested $2,500.00 in the retail clothing business.
2. Bought of Davis Bros., on account, merchandise, $318.67.
Bought of Brand Bros., for cash, merchandise, $362.55.
3. Bought of the Globe Clothing Co., on account, merchandise, $196.50.
Sold A. C. Dugan, on account, one suit of clothes, $65.00.
4. Bought of Brand Bros., for cash, merchandise, $318.62.
5. Sold for cash one suit of clothes, $65.00; one spring overcoat, $50.00.
6. Sold A. R. Isaacs, on account, one suit $60.00; five shirts at $2.50.
9. Paid the Globe Clothing Co. $196.50 in full of account.
Sold Charles Heaney, on account, one suit, $50.00; one vest, $10.00.

(*Concluded on page 36.*)

(*Exercise No. 11—Continued from page 35.*)

May 10. Bought of the Pope Clothing Co., on account, merchandise, $269.96.
Sold A. C. Dugan, on account, one spring overcoat, $85.00; six ties at $1.25 each.
11. Received $60.00 from Charles Heaney in full of account.
12. Bought of Brand Bros., for cash, merchandise, $327.16.
13. Paid $12.00 for telephone service.
14. Received $25.00 from A. R. Isaacs in part payment of the merchandise sold him on the 6th.
15. Bought of Davis Bros., on account, merchandise, $105.81.
Paid rent, $80.00; salaries of clerks, $75.00.

When these transactions have been recorded in the accounts, prove the equality of the debits and credits by a Trial Balance of balances.

Exercise No. 12, Recording Transactions Direct in the Ledger.

Record on ledger paper the following transactions performed during the month of May by W. L. Kirby, a retail paint merchant. Allow space for the accounts as follows: Cash, eight lines; Purchases, nine lines; Sales, ten lines; Expense, four lines; W. L. Kirby, Capital, Jones Bros., Cowan Bros., W. L. Luttrell, and W. H. Howland, each four lines; C. A. Norman, five lines; National Paint Co., and Marcus Franklin, each four lines.

May 1. W. L. Kirby invested $2,500.00 in the retail paint business.
Bought of Jones Bros., Uniontown, on account, merchandise, $221.35.
Paid one month's rent in advance, $75.00.
2. Bought of Cowan Bros., City, ten days, merchandise, $86.49.
Sold W. L. Luttrell, City, on account, merchandise per Sale No. 1, $42.50. The sale number indicates that a copy of the list of items sold has been retained.
4. Paid the National Paint Co., New York, cash for merchandise delivered today, $798.57.
5. Sold W. H. Howland, Middletown, on account, per Sale No. 2, $75.80.
Received for cash sales of merchandise, $110.00.
7. Paid Cowan Bros. $86.49 in full of account.
Sold C. A. Norman, City, on account, merchandise per Sale No. 3, $87.50.
9. Bought of National Paint Co., New York, twenty days, merchandise, $171.58.
10. Sold W. L. Luttrell, City, on account, merchandise per Sale No. 4, $78.75.
11. Received $50.00 from C. A. Norman to apply on account.
12. Bought of Cowan Bros., City, on account, merchandise, $93.25.
14. Received $75.80 from W. H. Howland in full of account.
16. Bought of Marcus Franklin, Ardmore, five days, merchandise, $218.32.
17. Bought of Jones Bros., Uniontown, on account, merchandise, $172.50.
18. Paid Marcus Franklin $218.32 in full of account.
Sold W. H. Howland, Middletown, on account, merchandise per Sale No. 5, $88.50.
19. Sold C. A. Norman, City, on account, merchandise per Sale No. 6, $32.45.
21. Received $30.00 from W. L. Luttrell to apply on account.

(*Concluded on page 37.*)

(*Exercise No. 12—Continued from page 36.*)

May 21. Sold C. O. Baily, for cash, 20 gallons I. X. L. paint at $4.75, $95.00.

24. Paid Jones Bros. $100.00 to apply on account.

C. A. Norman returned one gallon paint purchased from us on the 19th and was granted credit for $3.00. He paid cash, $29.45, for the balance due on this sale.

Enter as two separate transactions.

26. Gave a customer $2.00 in payment for paint purchased from us for cash and returned per agreement.

29. Paid the National Paint Co. $171.58 in full of account.

C. O. Bailey returned 2 gallons I. X. L. paint purchased on the 21st and accepted in exchange for it 4 gallons varnish.

No entry is required. Why?

31. Received credit from Jones Bros. for $12.00, value of 3 gallons paint purchased on the 17th and returned by us per agreement.

When these transactions have been recorded in the accounts, prove the equality of the debits and credits by a Trial Balance of balances.

RECORDING TRANSACTIONS IN THE JOURNAL

§ 36. **Transactions** with the owner and with operating expenses may be recorded in the journal in the same manner as transactions in which merchandise is purchased or sold for cash or on account. When the owner invests cash or other assets in the business, the transaction is recorded in the journal by writing the date, the name of the account debited and amount, the name of the account credited and amount, and the explanation, in the same form as other transactions; each asset invested is debited to the account which is to show its value, and the owner's Capital account credited. When the owner withdraws a part of his capital, the transaction is recorded in the journal in the same form as the entry for investment; in this case, however, the owner's Capital account is debited with the amount of the withdrawal, and the account which shows the value of the asset withdrawn is credited. When operating costs are paid, the transaction is recorded in the journal by writing the date, the name of the operating account affected (usually Expense) and the amount of the payment, the name and amount of the asset parted with, and the explanation.

Before recording transactions in the journal, the student should journalize each one mentally; that is, he should determine from the nature of the transaction the account to be debited and the account to be credited. Since the information the owner desires is obtained from the accounts, it is essential that the proper accounts be debited and credited in each transaction. Thus if M. E. Studebaker, the proprietor of the business, withdraws from the business $1,000.00 during the year, as salary, and the bookkeeper debits M. E. Studebaker Capital instead of Expense, the report which Mr. Studebaker receives from his bookkeeper at the end of the year would show $1,000.00 less expenses than have really been paid.

The following transactions relative to the complete operations of a business (including investment, operating cost, and the purchases and sales of merchandise for cash and on account), performed by M. E. Studebaker during the month of October, are shown recorded in the journal in Illustration No. 15 and posted to the ledger in Illustration No. 16. These transactions are the same as those at the top of page 35.

Oct. 1. M. E. Studebaker invested $1,000.00 in the office supplies business.

7. Purchased from A. R. King, Clinton, on account, merchandise, $317.65.

10. Received $75.50 for cash sales of merchandise.

(*Concluded on page 38.*)

43262

October 1, 192

1	Cash	1000	
1	M. E. Studebaker, Capital		1000
	Invested in the office supplies business		
	7		
1	Purchases	31765	
1	A. R. King		31765
	Bought merchandise on account		
	10		
1	Cash	7550	
1	Sales		7550
	Sold merchandise for cash		
	18		
1	E. B. Moore	75	
1	Sales		75
	Sold one desk on account		
	24		
1	A. R. King	200	
1	Cash		200
	Paid cash to apply on account		
	28		
1	J. W. Macon	12750	
1	Sales		12750
	Sold three filing sections on account		
	31		
1	Expense	50	
1	Cash		50
	Paid rent of store		

Illustration No. 15, A Journal Page with Transactions Recorded on It.

EXPLANATION The transactions recorded in this illustration are given at the bottom of pages 37 and 38. The method of recording is the same as in Illustrations Nos. 7 and 11. The transactions are the same as those recorded direct in the ledger in Illustration No. 13.

(*Continued from page 37.*)

Oct. 18. Sold E. B. Moore, 305 Elm St., City, on account, one desk, $75.00.
24. Paid A. R. King $200.00 on account.
28. Sold J. W. Macon, 222 Main St., City, on account, three files, $127.50.
31. Paid rent of store, $50.00.

Cash

19—			19—		
Oct.	1	$1 1000	Oct.	24	$1 200
	10	$1 7550		31	$1 50

E. B. Moore, 305 Elm St. City

19—		
Oct.	18	$1 75

F. W. Bacon, 222 Main St. City

19—		
Oct.	28	$1 12750

A. R. King, Clinton

19—			19—		
Oct.	24	$1 200	Oct.	7	$1 31765

M. E. Studebaker, Capital

19—		
Oct.	1	$1 1000

Sales

19—		
Oct.	10	$1 7550
	18	$1 75
	28	$1 12750

Purchases

19—		
Oct.	7	$1 31765

Expense

19—		
Oct.	31	$1 50

Illustration No. 16, A Ledger with Eight Accounts Resulting from Posting.

EXPLANATION. This ledger shows the posting of the transactions recorded in the journal, Illustration No. 15. A comparison of Illustration No. 13 with this illustration will show that the facts are the same, except the folio columns are used in the illustration above.

Exercise No. 13, Recording Transactions in the Journal and Posting.

Record on journal paper the following transactions performed during the month of January by E. B. Taylor, a retail grocer:

Jan. 1. E. B. Taylor invested $1,000.00 in the retail grocery business.
2. Bought of E. C. Cline, Chicago, on account, merchandise, $77.30.
3. Bought of Langley Bros., City, thirty days, merchandise, $134.95.
4. Paid $20.00, city and state license for one year.
6. Sold A. R. Manley, 106 Elm St., City, on account, 40 lbs. Arbuckle coffee at 20c; 1 bbl. White Lily flour, $6.25.

When the sale includes more than one item, the explanation in the journal should be as follows:

Sold on account:
40 lbs. Arbuckle Coffee at 20c, $8.00.
1 bbl. White Lily Flour 6.25.

10. Paid J. F. Sherwood $192.00 for merchandise purchased today.
12. Received $30.50 for sundry cash sales.
13. Paid E. C. Cline $77.30 in full of account.
16. Sold Gibson Hotel, 12 E. 4th St., City, ten days, 6 bbls. Roller King flour at $5.10; 3 bbls. White Lily flour at $6.25; 40 lbs. Arbuckle coffee at 20c.
17. Sold T. L. Staples, Clinton, sixty days, 4 bbls. Roller King flour at $5.10; 4 cans, 200 lbs., lard at 15c.
20. Received $10.00 from A. R. Manley to apply on account.
23. Bought of Logan & Moseley, Centerville, twenty days, merchandise, $228.60.
26. Sold A. R. Manley, 106 Elm St., City, on account, 5 bbls. White Lily flour at $6.25; 115 lbs. Arbuckle coffee at 20c.
27. Received $30.50 from the Gibson Hotel to apply on account.
30. Received $41.85 for sundry cash sales.

When the above transactions have been recorded in the journal as instructed open accounts in the ledger with Cash (9), Purchases (8), Sales (10), Expense (5), E. B. Taylor, Capital (5), E. C. Cline (4), Langley Bros. (4), A. R. Manley (4), Gibson Hotel (4), T. L. Staples (4), Logan & Moseley (4), allowing for each account the number of lines indicated; post the transactions, and prove the posting by a Trial Balance of totals.

Exercise No. 14, Recording Transactions in the Journal and Posting.

Record on journal paper the following transactions performed during the month of July by E. H. Weatherby, a retail grocer:

July 1. E. H. Weatherby invested $1,500.00 in the retail grocery business.
2. Bought from Woodward Bros., Morgantown, on account, merchandise, $127.60.
3. Bought from Winters & Gay, Batesville, on thirty days' time, merchandise, $204.05.
Paid $20.00 cash for city and state license.
5. Sold J. A. Taylor, 22 Poplar St., on account, 25 lbs. roasted coffee at 33c; 50 lbs. granulated sugar at 7c; 60 lbs. bacon at 23c.
Bought from Chafin & Jones, City, for cash, merchandise, $242.00.
6. Received $22.50 for sundry cash sales to date.
Paid Woodward Bros. $127.60 in full of account.

(*Concluded on page 41.*)

(*Exercise No. 14—Continued from page 40.*)

July 8. Sold the Colonial Hotel, Washington Ave., on account, 5 bbls. Blue Ribbon flour at $9.10; 3 bbls. White Rose flour at $9.75; 90 lbs. granulated sugar at 7c.

9. Received $15.00 from J. A. Taylor to apply on account.

10. Bought from Winters & Gay, Batesville, on thirty days' time, merchandise, $209.58.

12. Received $40.00 from the Colonial Hotel in part payment for merchandise sold on the 8th.

13. Paid Winters & Gay $100.00 to apply on purchase of the 3d.
Sold M. J. Sanders, 227 Beech St., on account, 5 bbls. White Rose flour at $9.75; 10 hams, 191 lbs., at 26c.

15. Bought from Woodward Bros., Morgantown, on account, merchandise, $216.37.

16. Sold the Colonial Hotel, Washington Ave., on account, 7 doz. cans peaches at $1.75 per doz.; 2,000 lbs. bran at $16.25 per 1,000 lbs.

17. Bought from the Perfection Creamery, Rosedale, on twenty days' time, merchandise, $34.45.

18. Received $30.00 from M. J. Sanders to apply on account.
Bought from Chafin & Jones, City, for cash, merchandise, $116.60.

19. Sold W. W. Johnston, 1221 Elm St., on account, 2,000 lbs. bran at $16.25 per 1,000 lbs.; 200 lbs. lard at 22c; 3 doz. cans peaches at $1.60 per doz. cans.

20. Paid Winters & Gay $104.05, balance due on purchase of the 3d.
Received $52.50 for sundry cash sales to date.

22. Sold W. W. Johnston, 1221 Elm St., on account, 100 lbs. granulated sugar at 7c; 10 bbls. White Rose flour at $9.75.

23. Bought from the Perfection Creamery, Rosedale, on twenty days' time, merchandise, $167.55.

24. Received $50.00 from the Colonial Hotel in full for balance due on sale of the 8th, and on account of sale of the 16th.
Paid Winters & Gay $200.00 on account of purchase of the 10th.

26. Received $10.55 from J. A. Taylor in payment for balance due on merchandise sold him on the 5th.
Sold L. S. Lynn, 915 Jefferson Ave., on account, 5 bbls. White Rose flour at $9.75; 10 lbs. creamery butter at 42c.

29. Received $40.00 from L. S. Lynn to apply on account.
Paid Woodward Bros. $200.00 on account of purchase of the 15th.

31. Paid bookkeeper's salary, $60.00; rent, $50.00; telephone service, $10.00.

When the above transactions have been recorded in the journal as instructed, open accounts in the ledger with Cash (13), J. A. Taylor (6), Colonial Hotel (8), M. J. Sanders (5), W. W. Johnston (6), L. S. Lynn (5), Woodward Bros. (6), Winters & Gay (8), Perfection Creamery (6), E. H. Weatherby, Capital (5), Sales (13), Purchases (12), Expense (6), allowing for each account the number of lines indicated; post the transactions, and prove the posting by a Trial Balance of balances.

QUESTIONS

1. Name some of the necessary expenses of a grocery business.
2. Can you suggest a plan which would permit the grocer to know the cost of delivering merchandise?
3. What accounts are affected when cash is paid for telephone service?
4. What effect would it have on the operating cost of the business if the salary paid the owner for his services in connection with the business were debited to his Capital account?
5. Name the account debited and the account credited when merchandise is invested at the beginning of business.
6. What accounts are affected when cash and merchandise are invested at the beginning of business?
7. What must the owner of a business take into consideration when he fixes the selling price of the merchandise which the business offers for sale?
8. Name some of the expenses in connection with the operation of a railroad.
9. If a farmer shows all of his operating cost in one account, name some of the expenses which would be debited to this account.
10. If a merchant pays $25 00 for drayage on merchandise he has purchased, would this be debited to the Expense or the Purchases account? Give reasons for your answer.
11. What accounts are affected when the owner withdraws a part of his capital?
12. Name the account debited and the account credited when the owner invests cash in the business at a time other than the beginning of the business.
13. If a telephone company pays $2,000.00 for wire used in connection with the service rendered its customers, will this be debited to the Expense account?
14. If a railroad company pays $8,000.00 for a new engine, will this be debited to the Expense account?
15. What accounts are affected when stamps, debited to Expense when purchased, are used for parcel post on a package containing merchandise sold a customer on account, with the agreement that he is to pay the postage?
16. Name the account debited and the account credited if the sale mentioned in the preceding question had been made for cash and the customer had given the business cash for the merchandise and stamps.
17. If Robert A. Clark, the owner of a business, is to receive a salary of $200.00 a month for his services rendered to the business and this is withdrawn at different times, what would be the name of the account kept with the transactions affecting this salary?
18. What accounts would be affected when the entry was made at the end of the month for the $200.00 salary (§ 33, page 33)?
19. Name the account debited and the account credited if Mr. Clark accepted merchandise from stock at cost price in payment for a part of his salary.
20. What accounts would be affected if Mr. Clark accepted merchandise from stock at the selling price in payment for a part of his salary?
21. What entry would be required if one customer was debited with merchandise purchased by another customer?
22. Name some of the transactions which might occur in connection with the complete operations of a hardware business.
23. Name some of the transactions which might occur in connection with the complete operations of a plumbing business.
24. Under what circumstances would you advise the keeping of more than one account with the expenses of a business?
25. Name some of the transactions which might be performed in connection with the operations of a dairy.

Chapter V

RECORDING TRANSACTIONS—Concluded

§ 37. Special Journals. While all transactions may be recorded in the journal as explained in § 22, yet it is not customary to do this because efficiency in bookkeeping means the greatest amount of work with the best results at the least cost. When a number of transactions affect the same account, much time can be saved by recording them in special journals. Fifty purchases during one month recorded in the journal would require writing "Purchases" fifty times and posting fifty separate amounts to the Purchases account. In addition to the extra time required in recording the transactions and posting, fifty lines would be needed in the ledger for the Purchases account. If these transactions were recorded in a journal and no other transactions were recorded in this journal, it would not be necessary to write "Purchases" in each transaction and the total could be posted to the Purchases account in one amount at the end of the month, thus saving practically half the time in the recording and posting of these transactions. In addition to the time saved in posting, forty-nine lines will be saved in the ledger as a result of posting the total purchases in one amount.

In a mercantile business the transactions which are of the most frequent occurrence are those in connection with the purchase and sale of merchandise and the receipt and payment of cash. If these transactions are recorded in special journals, the work in the accounting department will be much more efficient, and, where the volume of business is large and more than one bookkeeper is needed, the several bookkeepers can use the different journals without interfering with the work of each other.

The title of any special journal is usually the name of the account affected by posting the total at the end of the month. Thus, the journal in which purchases are recorded is usually referred to as the purchases journal because the Purchases account will be debited with the total, and the journal in which sales are recorded is referred to as the sales journal because the Sales account will be credited with the total.

§ 38. The Purchases Journal is a book of original entry in which all purchases of merchandise are recorded and no other transactions are recorded in it. The complete record of a transaction in which merchandise is purchased includes the date of entry, the name and address of the person or firm from whom the merchandise is purchased, the terms, the number of the purchase and the amount of the purchase. The ruling in the purchases journal should be so arranged that all this information can be recorded on one line. When arranged in this manner, each person or firm from whom merchandise is purchased can be credited in his account in the ledger, and the Purchases account debited for the total at the end of the month. Illustration No. 17 shows one form of the purchases journal.

If cash purchases are recorded in the cash book (§ 43), it is not necessary to record them in the purchases journal. This is explained further in connection with the discussion of the cash book.

The following purchases of merchandise made by E. B. Taylor, a retail grocer, during the month of January, are shown recorded in the purchases journal in Illustration No. 17:

Jan. 2. Bought of E. C. Cline, Chicago, on account, merchandise, $77.30.
3. Bought of Langley Bros., City, on thirty days' time, merchandise, $134.95.
23. Bought of Logan & Moseley, Centerville, on twenty days' time, merchandise, $228.60.

January, 19--

Date	L.F.	Account Credited	Address	Terms	Pur. No.	Amount
2	1	E. C. Cline	Chicago	On acct	1	7730
3	1	Langley Bros.	City	30 days	2	13495
23	1	Logan & Moseley	Centerville	20 days	3	22860
31	1	Purchases Dr.—Total				44085

Illustration No. 17, Purchases Journal.

EXPLANATION. Each transaction is recorded on one horizontal line. The information in the "Pur. No." column refers to the list of merchandise (invoice) sent by the seller to the purchaser; this list is filed for future reference. The entire record in this illustration is equivalent to one journal entry in which the Purchases account is debited and three personal accounts credited.

§ **39. Posting from the Purchases Journal.** The accounts affected by each transaction recorded in the purchases journal are Purchases (debit) and the account of the person or firm (credit); for this reason, each amount entered in the

(*Concluded on page 45.*)

E. C. Cline
Chicago

19--				
Jan. 2	On acct	P. 1		7730

Langley Bros.
City

19--				
Jan. 3	30 days	P. 1		13495

Logan & Moseley
Centerville

19--				
Jan. 23	20 days	P. 1		22860

Purchases

19--			
Jan. 31	P. 1		44085

Illustration No. 18, Ledger Resulting from Posting Illustration No. 17.

EXPLANATION. A Trial Balance from this ledger will show that the debit amount is equal to the credit amounts even though the record in the accounts does not represent all of the transactions that the business would perform. One purpose of this illustration is to show that the ledger is in balance when all the transactions from any one journal have been posted.

money column is posted to the credit of the account written on the same line with it, and the Purchases account is debited at the end of the month with the total. The posting is the same as in the journal, except that the amounts debited to Purchases are grouped and posted at one time; the posting to the accounts with creditors should be daily, and the posting of the total to the Purchases account, monthly. The date, the letter "P" and the page of the purchases journal are entered in the ledger; the letter "P" indicates the title of the book of original entry. If a specific time of payment is stated, this should be written in the explanation column of the ledger as explained in Illustration No. 1. The page of the ledger is written in the folio column of the purchases journal to indicate where the entry has been posted.

The posting of the transactions recorded in the purchases journal, Illustration No. 17, is shown in Illustration No. 18.

Exercise No. 15, Recording Transactions in the Purchases Journal.

Record in the purchases journal (paper ruled similar to Illustration No. 17) the following transactions relative to the purchase of merchandise during the month of February by W. O. Gardner, who is engaged in the hardware business:

Feb 1. B. A. Ames, Toledo, 30 days, Purchase No. 1, $350.00.
5. H. M. Lowe, Nashville, Feb. 3, 30 days, Purchase No. 2, $325.00.
In this purchase the merchandise was shipped Feb. 3 and received Feb. 5; the amount is due 30 days from Feb. 3.
9. H. T. Harris, Rochester, 20 days, Purchase No. 3, $486.00.
12. J. T. Goodrich, City, Feb. 10, 90 days, Purchase No. 4, $825.00.
18. J. P. Benson, Cleveland, Feb. 17, 60 days, Purchase No. 5, $64.00.
23. C. O. Parsons, City, 30 days, Purchase No. 6, $128.00.
28. H. L. Simpson, Dayton, Feb. 26, 30 days, Purchase No. 7, $242.00.

When the above transactions have been recorded in the purchases journal as instructed, and the purchases journal ruled as in Illustration No. 17, open accounts on a sheet of ledger paper with Purchases and each of the seven creditors, allowing four lines for each account. When the posting has been completed, prove the equality of the debits and credits by a Trial Balance.

Exercise No. 16, Recording Transactions in the Purchases Journal.

Record in the purchases journal the following transactions relative to the purchase of merchandise during the month of January by H. H. Goodman, a retail grocer:

Jan. 2. Brown & Co., Elmwood, on account, Purchase No. 1, $77.30.
3. Knox Bros., City, on account, Purchase No. 2, $134.95.
10. Hazen & Lockhart, Danville, on account, Purchase No. 3, $228.60.
15. Brown & Co., Elmwood, on account, Purchase No. 4, $226.00.
17. Lake View Creamery, Lake View, Jan. 14, 20 days, Purchase No. 5, $28.00.
23. J. Allen Smith & Co., Rockford, 10 days, Purchase No. 6, $197.10.
27. Donaldson Bros., City, Jan. 24, account, Purchase No. 7, $172.75.

When the above transactions have been recorded in the purchases journal as instructed, and the purchases journal ruled, open accounts on a sheet of ledger paper with Purchases and each of the six creditors, allowing five lines for Brown & Co. and four lines for each of the other accounts. When the posting has been completed, prove the equality of the debits and credits by a Trial Balance.

After the instructor has approved this exercise, retain the purchases journal only for use in connection with Exercise No. 22.

Exercise No. 17, Recording Transactions in the Purchases Journal.

Record in the purchases journal the following transactions relative to the purchase of merchandise during the month of March by C. U. Steele, a retail shoe dealer:

March 2. Bay State Shoe Co., Boston, Feb. 28, 10 days, Purchase No. 1, $496.81.
3. Haynes, Henson & Co., Newark, N. J., Mar. 2, 10 days, Purchase No. 2, $387.65.
4. M. B. Lang, City, Mar. 3, 30 days, Purchase No. 3, $1,691.42.
6. Cline Shoe Co., Pittsburgh, Mar. 4, 30 days. Purchase No. 4, $168.42.
18. Bay State Shoe Co., Boston, Mar. 15, 30 days, Purchase No. 5, $987.35.
25. Haynes, Henson & Co., Newark, N. J., Mar. 20, 30 days, Purchase No. 6, $462.85.
26. Cline Shoe Co., Pittsburgh, Mar. 20, 30 days, Purchase No. 7, $785.00.
31. A. O. Haines, Albany, Mar. 21, 60 days, Purchase No. 8, $432.50; M. B. Lang, City, Mar. 22, 30 days, Purchase No. 9, $356.00.

When the above transactions have been recorded in the purchases journal as instructed, and the purchases journal ruled, open an account with Purchases at the top of page 1 of a double sheet of ledger paper, and an account with each of the five creditors on page 2 of the same sheet, allowing equal space for each personal account; prove the equality of the debits and credits by a Trial Balance.

If double ledger paper ruled with from thirty to forty horizontal lines on each page can not be obtained, use any ledger paper available and allow five lines for each account.

After the instructor has approved this exercise, retain the ledger sheet only for use in Exercises Nos. 20 and 23.

§ **40. The Sales Journal** is a book of original entry in which all sales of merchandise on account are recorded and no other transactions are recorded in it. The complete record of a transaction in which merchandise is sold on account includes the date of the sale, the name and address of the person or firm to whom the merchandise is sold, the terms, a list of the items sold, and the amount of the sale. It is necessary for the seller to retain a record of the items sold a customer on account because this information will be needed in case adjustments are required. If a customer returns merchandise which he claims was purchased from the seller and the seller has no record of the items sold to this customer, he might be imposed on by allowing credit for merchandise which was not purchased from him.

Illustration No. 19 shows a form of sales journal containing a list of the items sold, and Illustration No. 20 the same sales recorded in a sales journal with the list of items indicated by the sale number. The method shown in Illustration No. 20 is more efficient because it requires less time to record a number than a list of articles sold. The other form is shown because it is used by some business concerns.

If cash sales are recorded in the cash book (§ 43), it is not necessary to record them in the sales journal. This is explained further in connection with the discussion of the cash book.

The following sales made by E. B. Taylor, a retail grocer, during the month of January, are shown recorded in the sales journals in Illustrations Nos. 19 and 20.

Jan. 6. Sold A. R. Manley, 106 Elm St., City, on account, 40 lbs. Arbuckle coffee at 20c; 1 bbl. White Lily flour, $6.25.
16. Sold Gibson Hotel, 12 E. 4th St., City, on ten days' time, 6 bbls. Roller King flour at $5.10; 3 bbls. White Lily flour at $6.25; 40 lbs. Arbuckle coffee at 20c.
17. Sold T. L. Staples, Clinton, on sixty days' time, 4 bbls. Roller King flour at $5.10; 4 cans, 200 lbs., lard at 15c.
26. Sold A. R. Manley, 106 Elm St., City, on account, 5 bbls. White Lily flour at $6.25; 115 lbs. Arbuckle coffee at 20c.

January 6, 192

1	A. R. Manley 106 Elm St, City			14 25
	40 lbs. Arbuckle Coffee	.20	8	
	1 bbl. White Lily Flour		6 25	
	16			
1	Gibson Hotel 12 E 4th St, City			57 35
	6 bbls. Roller King Flour	5.10	30 60	
	3 " White Lily Flour	6.25	18 75	
	40 lbs. Arbuckle Coffee	.20	8	
	17			
1	T. L. Staples Clinton			50 40
	4 bbls. Roller King Flour	5.10	20 40	
	4 cans, 200 lbs. Lard	.15	30	
	26			
1	A. R. Manley 106 Elm St, City			54 25
	5 bbls. White Lily Flour	6.25	31 25	
	115 lbs. Arbuckle Coffee	.20	23	
				176 25
1	Sales Cr.—Total			176 25

Illustration No. 19, Sales Journal Containing a List of Items Sold.

EXPLANATION. The transactions recorded in this sales journal are equivalent to a journal entry in which four accounts are debited, each for the amount written on the same line with it, and the Sales account credited for the total. Each entry shows the date, the name and address of the customer, the total amount of the sale, and a list of the items sold.

January, 192

Date	L. F.	Account Debited	Address	Terms	Sale No.	Amount
6	1	A. R. Manley	106 Elm St, City	Om acct	1	14 25
16	1	Gibson Hotel	12 E 4th St, City	30 days	2	57 35
17	1	T. L. Staples	Clinton	60 days	3	50 40
26	1	A. R. Manley	106 Elm St, City	Om acct	4	54 25
31	1	Sales Cr.—Total				176 25

Illustration No. 20, Sales Journal Without a List of Items Sold.

EXPLANATION. The above facts are the same as those in Illustration No. 19, except the articles are not itemized. Information concerning these is obtained from a copy of the sale (sales ticket).

§ 41. **Posting from the Sales Journal.** The accounts affected by each transaction recorded in the sales journal are the customer (debit) and Sales (credit); for this reason each amount written on the line with the name of the customer is posted to the debit of his account, and the Sales account is credited with the total at the end of the month. The posting of the amounts to accounts with customers is daily, and the total to the Sales account, monthly. The date, the letter "S" and the page of the sales journal are entered in the ledger; the letter "S" indicates the title of the book of original entry. If a specific time of payment is stated, this should be written in the explanation column of the ledger as explained in Illustration No. 1. The page of the ledger is written in the folio column of the sales journal to indicate where the entry has been posted.

The posting of the transactions recorded in the sales journal, Illustration No. 19 or No. 20, is shown in Illustration No. 21.

A. R. Manley
106 Elm St. City.

192 Jan.	6	On acct	$1	14 25
	26	"	$1	54 75

Gibson Hotel
12 E. 4th St. City

192 Jan.	16	30 days	$1	57 35

T. L. Staples
Clinton

192 Jan.	17	60 days	$1	50 40

Sales

192 Jan	31	$1 176 25

Illustration No. 21, Ledger Resulting from Posting Illustration No. 19 or No. 20.

EXPLANATION. The same explanation applies here as that given in connection with the ledger resulting from posting the transactions from the purchases journal, Illustration No. 18.

Exercise No. 18, Recording Transactions in the Sales Journal.

Record in the sales journal (paper ruled similar to Illustration No. 20) the following transactions relative to the sale of merchandise on account during the month of February by W. J. Wheeler, a retail merchant:

Feb. 3. E. M. Miller, 507 Gay St., Sale No. 1, $25.50.
8. William A. Wallace, Evanston, Sale No. 2, $14.50.

(*Concluded on page 49.*)

(*Exercise No. 18—Continued from page 48.*)

Feb. 12. B. T. Hart & Co., Maryville, Sale No. 3, $32.50.
14. D. T. Sinton, Uniontown, Sale No. 4, $41.65.
18. G. L. Frye, 29 Main St., Sale No. 5, $12.75.
20. The Long Construction Co., Uniontown, 30 days, Sale No. 6, $142.50.
23. Henry Mason, 64 Union St., Sale No. 7, $21.55.
27. D. P. Lewis, 310 Chestnut St., Sale No. 8, $9.75.
28. Maynard Pritchett, Brookville, 30 days, Sale No. 9, $65.25.

When the above transactions have been recorded in the sales journal as instructed, and the sales journal ruled as in Illustration No. 20, open accounts on a sheet of ledger paper with Sales and each of the nine customers, allowing four lines for each. When the posting has been completed, take a Trial Balance.

Exercise No. 19, Recording Transactions in the Sales Journal.

Record in the sales journal (journal paper ruled similar to Illustration No. 19) the following transactions relative to the sale of merchandise during the month of January by H. H. Goodman, a retail grocer:

Jan. 4. A. R. Jennings, 105 Main St., 20 lbs. roasted coffee at 33c; 100 lbs. granulated sugar at 7c; 50 lbs. bacon at 23c.
8. Central Hotel, 22 Walnut St., 5 bbls. Blue Ribbon flour at $9.25; 4 hams, 100 lbs., at 26c; 100 lbs. granulated sugar at 7c.
11. A. R. Jennings, 105 Main St., 1 doz. cans tomatoes, $2.00; 4 cans, 216 lbs., lard at 26c.
13. M. A. Johnson, Kingston, 5 bbls. White Rose flour at $9.75; 6 hams, 141 lbs., at 26c.
16. Imperial Hotel, 200 Locust St., 5 bbls. Blue Ribbon flour at $9.25; 100 lbs. granulated sugar at 7c.
19. A. C. Williams, 1221 Elm St., 12 doz. cans peaches at $1.80 per doz.; 2,000 lbs. bran at $16.25 per 1,000 lbs.
22. R. G. Mathews, 25 E. Fourth St., 10 bu. meal at $1.10; 5 bu. beans at $3.20; 3 doz. cans peaches at $1.80 per doz.
25. Imperial Hotel, 200 Locust St., 5 bbls. White Rose flour at $9.75; 25 lbs. creamery butter at 41c.
26. J. C. Wilson, 270 Central Ave., 2,000 lbs. bran at $16.25 per 1,000 lbs.; 5 cans, 248 lbs., lard at 26c.
27. C. L. Loyd, 1604 Vine St., 100 lbs. brown sugar at 6½c; 100 lbs. granulated sugar at 7c; 5 bbls. White Rose flour at $9.75.

When the above transactions have been recorded in the sales journal as instructed, and the sales journal ruled as in Illustration No. 19, open accounts on a sheet of ledger paper with Sales and each of the eight customers, allowing five lines each for A. R. Jennings and Imperial Hotel and four lines for each of the other accounts. When the posting has been completed, take a Trial Balance.

After the instructor has approved this exercise, retain the sales journal only for use in connection with Exercise No. 22.

Exercise No. 20, Recording Transactions in the Sales Journal.

Record in the sales journal (journal paper ruled similar to Illustration No. 19) the following transactions relative to the sale of merchandise during the month of March by C. U. Steele, a retail shoe dealer:

March 1. R. L. Watson, 207 Mason St., 1 pr. Queen City shoes, $10.50.
4. C. A. Sheppard, Canton, 3 prs. Ladies' shoes at $4.00.
9. J. C. Wilson & Co., Hamilton, 8 prs. Men's Calf shoes at $2.50; 14 prs. Men's Jefferson shoes at $3.75.

* (*Concluded on page 50.*)

(*Exercise No. 20—Continued from page 49.*)

March 12. A. R. King, Boston, 1 pr. Ladies' Bal. at $4.50.
15. W. E. Peters, Clinton, 1 pr. Men's Vici Autocrat shoes, $14.00.
18. W. K. Love, 207 Main St., 1 pr. Men's Vici Kid shoes, $11.50.
21. A. R. King, Boston, 2 prs. Women's Box Calf at $4.00.
26. C. A. Sheppard, Canton, 1 pr. Men's Cong. Calf, $9.00.
30. R. L. Watson, 207 Mason St., 6 prs. Children's Satin Calf at $2.75.

When the above transactions have been recorded in the sales journal as instructed, and the sales journal ruled as in Illustration No. 19, open an account with Sales eight lines from the top of page 1 of the double sheet of ledger paper used in Exercise No. 17; open an account with each of the six customers on page 3 of this same ledger sheet, allowing equal space for each personal account; take a Trial Balance. When approved, retain the ledger sheet for use in Exercise No. 23.

§ 42. **The Cash Record.** There are two classes of cash transactions: those in which cash is received, and those in which cash is paid. These transactions may be recorded in two separate journals, the receipts in a cash receipts journal and the payments in a cash payments journal, or they may be recorded in a cash book which is a combination of the two journals. When one bookkeeper records all the transactions with cash received and paid, it is better to use the cash book; when the recording of cash transactions requires more than one bookkeeper, it is better to use separate cash receipts and cash payments journals.

Cash

					Receipts
19 Jan.	1	1	E. B. Taylor Capital	Investment	1000
	12	1	Sales	Cash sales	30 50
	20	1	A. R. Manley	On account	10
	27	1	Gibson Hotel	" "	30 50
	30	1	Sales	Cash sales	41 85
					111 2 85
	31	1	Cash Dr.	Total receipts	111 2 85
					111 2 85
Feb.	1	✓	Balance	On hand	82 3 55

Illustration No. 22, Receipts Side of Cash Book.

EXPLANATION. The transactions recorded on the receipts side of the cash book in the illustration are equivalent to a journal entry in which the Cash account is debited for the total, and each of the four accounts credited for the amount written on the same line with it. The ruling separates the cash receipts for two different months; the balance at the beginning of the month is carried down below the ruling because it will be needed in subsequent proving of cash.

§ 43. **The Cash Book** is a book of original entry in which all receipts and payments of cash are recorded and no other transactions are recorded in it. Receipts and payments are usually recorded on separate pages opposite each other, receipts on the left and payments on the right. The complete record of a transaction in which cash is received or paid consists of the date, the name of the account affected, explanation, and the amount received or paid. The ruling in the cash book should be so arranged that all this information can be recorded on one line. When ar-

ranged in this manner, each account affected by a cash receipt can be credited for the amount and the Cash account debited for the total at the end of the month; each account affected by a cash payment can be debited for the amount and the Cash account credited for the total at the end of the month. One form of the cash book is shown in Illustrations Nos. 22 and 23; other forms will be illustrated and explained later.

When a cash sale is recorded in the cash book only, the Sales account is credited; if recorded in the sales journal and cash book, the customer whose account is debited by the sales journal entry is credited in the cash book entry When a cash purchase is recorded in the cash book only, the Purchases account is debited; if recorded in the purchases journal and cash book, the creditor whose account is credited by the purchases journal entry is debited in the cash book entry.

The following receipts and payments of cash made during the month of January by E. B. Taylor, a retail grocer, are shown recorded in the cash book in Illustrations Nos. 22 and 23:

Jan. 1. E. B. Taylor invested $1,000.00 in the retail grocery business.
4. Paid $20.00, city and state license for one year.
10. Paid J. F. Sherwood $192.00 for a cash purchase of merchandise.
12. Received $30.50 for sundry cash sales.
13. Paid E. C. Cline $77.30 in full of account.
20. Received $10.00 from A. R. Manley to apply on account.
27. Received $30 50 from the Gibson Hotel to apply on account.
30. Received $41.85 for sundry cash sales.

Cash

Payments

19					
Jan.	4	1	Expense	City and state license	20
	10	1	Purchases	Cash purchase	192
	13	1	E. C. Cline	In full of account	77 30
	31	1	Cash Cr.	Total payments.	289 30

111285

Illustration No. 23, Payments Side of Cash Book.

EXPLANATION. The transactions recorded on this side of the cash book are equivalent to a journal entry in which three accounts are debited, each for the amount written on the same line with it, and the Cash account credited for the total. The balance is entered in red ink because it is customary to use red ink when an amount is entered in a book of account or a ledger account in order to make the two sides equal. The ruling separates the cash payments for two different months.

§ 44. **Proving Cash.** The difference between the two sides of the cash book should at all times equal the amount of cash belonging to the business; the proof is effected by counting the cash and comparing it with the balance shown by the cash book. Cash should be proved before posting. After the cash is proved at the end of the month, the cash book is ruled; Illustrations Nos. 22 and 23 show the method of footing and ruling the cash book at the end of the month.

E. B. Taylor, Capital

		192 Jan. 1	C.2 1000

Sales

		192 Jan. 17	C.2 3050
		30	C.2 4185

A. R. Manley

		192 Jan. 20	C.2 10

Gibson Hotel

		192 Jan. 27	C.2 3050

Cash

192 Jan. 31	C.2 11285	192 Jan. 31	C.3 28930

Expense

192 Jan. 4	C.3 20		

Purchases

192 Jan. 10	C.3 192		

E. C. Cline

192 Jan. 13	C.3 7730		

Illustration No. 24, Ledger Resulting from Posting Illustrations Nos. 22 and 23.

EXPLANATION. This illustration is given to show that the ledger is in balance when all the transactions recorded in the cash book have been posted, and not to show the true meaning of the accounts. Accounts resulting from the posting of transactions recorded in the cash book only will not show their true meaning because of the connection between the record in the cash book and that in the purchases and sales journals. If desired, the posting from the receipts side, the payments side, and both sides of the cash book may each be proved by a separate Trial Balance.

§ 45. **Posting from the Cash Book.** The accounts affected by each transaction recorded on the receipts side of the cash book are Cash debited and some account credited; for this reason each amount written on the line with the name of the account is posted to the credit of the account, and Cash is debited with the total at the end of the month. The accounts affected by each transaction recorded on the payments side of the cash book are some account debited and Cash credited; for this reason each amount written on the line with the name of the account is posted to the debit of the account, and Cash is credited with the total at the end of the month. The posting to the accounts debited and credited is daily, and to the Cash account monthly. The date, the letter "C" and the page of the cash book are entered in the ledger; the letter "C" indicates the title of the book of original entry. The page of the ledger is written in the folio column of the cash book to indicate where the entry has been posted.

The posting of the transactions recorded in the cash book, Illustrations Nos. 22 and 23, is shown in Illustration No. 24.

Some bookkeepers advise a Cash account in the ledger, while others accept the record in the cash book as the Cash account. The Cash account in the ledger will show the total receipts and total payments of cash for a period longer than a month, while the record in the cash book shows the total receipts and total payments for each month only. If it is desired to know the cash receipts and cash payments for the first six months of a given year, this information can be obtained from the total debits and total credits to the Cash account in the ledger; if the cash book is the only record of cash, it will be necessary to add the totals for each of the six months in order to ascertain the desired information.

Exercise No. 21, Recording Transactions in the Cash Book.

Record in the cash book (the two inside pages of a double sheet of journal paper* ruled similar to Illustrations Nos. 22 and 23), receipts on the left and payments on the right, the following cash transactions performed during the month of February:

Feb. 1. Student invested $1,276.80 in the retail grocery business.
2. Received $150.00 from E. H. White to apply on account.
3. Paid office rent for the month of February, $40.00.
4. Received $80.00 for cash sales.
Paid H. R. Swanson $60.00 to apply on account.
6. Received $120.00 for cash sales.
8. Paid A. B. Hill $90.50 to apply on account..
9. Received $90.00 from J. K. Lachman in payment for merchandise sold him on the 4th.
10. Paid drayage on merchandise purchased, $22.50.
11. Paid J. G. Pipkin $124.00 to apply on account.
14. Received $69.75 for cash sales.
16. Received $170.00 from P. B. S. Peters in payment for merchandise sold him on the 10th.
18. Paid $45.00 for office supplies.
20. Paid J. T. Ludlow $146.00 to apply on account.
22. Purchased merchandise for cash from H. P. King, $128.00.
23. Received $47.85 for cash sales.
24. Received $210.00 from H. M. Lovert to apply on account.
25. Paid salesman's expenses, $76.00.
Received $52.50 for cash sales.

(*Concluded on page 54.*)

*If double journal paper with from thirty to forty lines on each page is not available, cash receipts should be recorded on one sheet of paper and payments on another, as the proper ruling of the cash book cannot be shown when receipts are entered on one side and payments on the other side of the same sheet.

(*Exercise No. 21—Continued from page 53.*)

Feb. 27. Paid $32.80 for freight on merchandise purchased.
Paid clerk hire, $40.00.
28. Paid for advertising, $22.50.
Cash balance, $1,439.60.

When the above transactions have been recorded in the cash book as instructed, prove cash and rule the cash book as in Illustrations Nos. 22 and 23. Open accounts on a sheet of ledger paper with Student, Capital (5), Cash (5), Purchases (6), Sales (8), Expense (8), E. H. White (4), J. K. Lachman (4), P. B. S. Peters (4), H. M. Lovert (4), H. R. Swanson (4), A. B. Hill (4), J. G. Pipkin (4), J. T. Ludlow (4), allowing for each account the number of lines indicated. Post the transactions, and prove the equality of the debits and credits by a Trial Balance of balances.

Exercise No. 22, Recording Transactions in the Cash Book.

Record in the cash book, receipts on the left and payments on the right, the following cash transactions performed during the month of January by H. H. Goodm n, a retail grocer:

Jan. 1. H. H. Goodman invested $2,000.00 in the retail grocery business.
4. Paid $20.00 for city license.
5. Paid City Milling Co. $192.00 for a cash purchase.
6. Received $30.00 for sundry cash sales.
Paid Brown & Co. $77.30 in full of account.
9. Received $10.00 from A. R. Jennings to apply on account.
12. Received $30.00 from Central Hotel to apply on account.
13. Received $40.00 for sundry cash sales.
Paid Knox Bros. $100.00 to apply on account.
18. Received $35.00 from M. A. Johnson to apply on account.
20. Paid Knox Bros. $34.95 in full of account.
Received $50.00 for sundry cash sales.
24. Received $15.00 from Central Hotel to apply on account.
Paid Hazen & Lockhart $125.00 to apply on account.
26. Received $15.10 from A. R. Jennings to apply on account.
27. Received $42.50 for sundry cash sales.
29. Received $50.00 from C. L. Loyd to apply on account.
30. Paid Brown & Co. $150.00 to apply on account.
31. Paid bookkeeper's salary, $35.00; rent, $25.00.
Cash balance, $1,558.35.

When the above transactions have been recorded in the cash book as instructed, prove cash and rule the cash book; then proceed as follows:

1. Open accounts on ledger paper with H. H. Goodm n, Capital (4), Cash (4), Purchases (4), Sales (6), Expense (4), A. R. Jennings (4), Central Hotel (4), M. A. Johnson (4), C. L. Loyd (4), Brown & Co. (4), Knox Bros. (4), Hazen & Lockhart (4), allowing for each account the space indicated; post the transactions, and prove the equality of the debits and credits by a Trial Balance of balances.

2. After the instructor has approved the work required in the first paragraph, post to a sheet of ledger paper the transactions in the purchases journal for Exercise No. 16 and the sales journal for Exercise No. 19, which you were instructed to retain, and the cash book in this exercise. Arrange the accounts as follows: Cash (6), customers (each 4 lines), creditors (each 4 lines), H. H. Goodm n, Capital (5), Sales (7), Purchases (4), Expense (4), allowing for each the number of lines indicated; take a Trial Balance of balances from this ledger.

(*Concluded on page 55.*)

(*Exercise No. 22—Continued from page 54.*)

The purpose of the second division of this exercise is to show that the ledger is in balance when all the transactions from all the special journals have been posted, the same as it is when all the transactions from each special journal have been posted.

Present the purchases journal, sales journal, cash book, ledger resulting from posting the transactions from the three books, and Trial Balances to the instructor for approval.

Exercise No. 23, Recording Transactions in the Cash Book.

Record in the cash book the following cash transactions performed during the month of March by C. U. Steele, a retail shoe dealer:

March 1. C. U. Steele invested $2,500.00 in the retail shoe business.
2. Bought from M. B. Arnstine, for cash, stock of shoes, $1,691.42.
3. Paid telephone service in advance for three months, $20.00.
Received $69.85 for cash sales.
5. Paid clerk's salary, $25.00.
6. Received $10.50 from R. L. Watson in full of account.
8. Paid Bay State Shoe Co. $496.81 in full of account.
9. Received $275.40 for cash sales.
12. Paid clerk's salary, $25.00.
13. Paid $75.00, premium on insurance policy.
15. Paid Haynes, Henson & Co. $387.65 in full of account.
16. Received $12.00 from C. A. Sheppard in full of account.
18. Paid $8.25 for stamps and stationery.
19. Paid clerk's salary, $25.00.
22. Received $72.50 from J. C. Wilson & Co. in full of account.
24. Received $11.50 from W. K. Love in full of account.
26. Received $581.92 for cash sales.
Paid clerk's salary, $25.00.
29. Received $4.50 from A. R. King for merchandise sold him on the 12th.
31. Paid rent, $50.00.
Paid Cline Shoe Co. $168.42 for merchandise purchased on the 6th.
Received $361.92 for cash sales.
Cash balance, $902.54.

When the above transactions have been recorded in the cash book as instructed, prove cash and rule the cash book. Open an account on page 1 of the double sheet of ledger paper used in Exercises Nos. 17 and 20 with C. U. Steele, Capital, eleven lines below the heading of the Sales account, an account with Expense seven lines below the heading of the account with C. U. Steele, Capital, and an account with Cash fourteen lines below the heading of the Expense account. Post the entries in the cash book to the accounts on pages 1, 2 and 3 of the ledger sheet, and take a Trial Balance of balances.

Retain the ledger and Trial Balance for use in Exercise No. 37.

§ 46. **The General Journal** is a book of original entry in which all transactions are recorded except those recorded in special journals. The general journal is the same as the journal explained in § 22, and the ruling is the same as the various illustrations of the journal given in preceding chapters. When purchases are recorded in the purchases journal, sales in the sales journal, and cash receipts and payments in the cash book, all other transactions are recorded in the general journal. These transactions may be classified into four groups: (1) opening entries; (2) current entries; (3) correcting entries; (4) adjusting and closing entries.

¶ 1. *Opening Entries* are those necessary to record assets other than cash invested by the owner at the beginning of the business. If the business is owned

by one person and his investment is cash, the opening entry will be made in the cash book. If assets other than cash are invested, the accounts which are to show the value of the assets will be debited, and the owner's Capital account credited for the total of the assets in the opening entry in the journal. If the owner wishes to have the business assume liabilities, two entries are necessary to open the books, one to record the assets, and the other to record the liabilities; the owner's Capital account is debited for the total liabilities, and the accounts which are to show the liabilities, credited.

ILLUSTRATION. January 1, S. J. Shook began the retail shoe business. He invested cash $500.00, merchandise $425.65, and an account due him from W. H. Barton for $221.75. He owes the Ritter Shoe Co. $150.00 and the Haynes Shoe Co. $75.85. The cash invested will be recorded in the cash book as in the first entry in Illustration No. 22; the other assets and the liabilities will be recorded in the general journal as in the illustration at the right.

January 1, 192

Purchases	425 65	
W. H. Barton	221 75	
S. J. Shook, Capital		647 40
S. J. Shook, Capital	225 85	
Ritter Shoe Co.		150
Haynes Shoe Co.		75 85

If desired, the entry for the cash invested may be made in connection with the entry in the general journal for the other assets When this plan is followed, cash and each asset is debited and the proprietor credited in the same form as in the illustration. The proprietor is also credited for the cash in the cash book in the same manner as though the entry for the cash had not been made in the general journal. A check mark is placed in the L. F. column at the left of Cash in the general journal and at the left of the proprietor's name in the cash book to avoid double posting.

¶ 2. *Current Entries* are those necessary to record transactions in the regular operations of the business. When the nature of these transactions is such that they cannot be recorded in one of the special journals, it is necessary to record them in the general journal. Current entries include those for transactions in which merchandise is returned to a creditor, a customer returns merchandise, assets other than cash are accepted from customers in payment of their obligations, and assets other than cash are given to a creditor in payment of an obligation owed him.

ILLUSTRATION. May 12, George A. Douglas purchased from the Potter Shoe Co. two pairs shoes at $8.50, with the privilege of returning one pair within five days. This transaction was recorded in the sales journal, his account being debited with $17.00. May 15 he returned one pair and received credit for $8.50 as per agreement. The entry required in the general journal is shown in the illustration at the right.

May 15, 192

Sales	8 50	
George A. Douglas		8 50

¶ 3. *Correcting Entries* are those made necessary because of errors in recording transactions. These errors may occur in the calculations necessary to ascertain the amount of a sale, a purchase, merchandise returned by a customer, merchandise returned to a creditor, or they may be the result of incorrect posting.

ILLUSTRATION. April 16, C. A. Moore purchased from Dawes Bros., retail tire dealers two 32 x 3½ Fisk cord tires at $37.75 each. The transaction was recorded in the sales journal by the bookkeeper for Dawes Bros., but through an error, the amount was entered as $85.50 instead of $75.50. May 1, Dawes Bros. received $75.50 from Mr. Moore in full payment for the two tires. When the bookkeeper for Dawes Bros. posted the amount to Mr. Moore's account, there was a balance of $10.00, due to the error which Mr. Moore had reported. The only means of correcting this error was through an entry in the general journal similar to that in the Illustration at the right.

May 1

Sales	10	
C. A. Moore		10

¶ 4. *Adjusting and Closing Entries* are those required at the end of a business year. These are explained and illustrated in Chapter VIII.

¶ 5. *Posting from the General Journal.* Each amount entered in the debit column is posted to the debit side of the account written on the same line with it. Each amount entered in the credit column is posted to the credit side of the account written on the same line with it. The process is the same as that given in § 23.

Exercise No. 24, Purchases Journal, Sales Journal, General Journal, and Cash Book.

Record in the purchases, sales (Illustration No. 19), and general journals and the cash book, the following transactions performed during the month of February by Donald D. Sells, a retail hardware merchant:

Feb. 1. Donald D. Sells invested $3,000.00 in the hardware business.
2. Bought from Moore & Moore, City, on account, merchandise, $187.65.
Enter in the purchases journal as Purchase No. 1 and number succeeding entries in this journal in regular order.
3. Sold J. C. Mason, City, on account, four kegs nails at $4.50 each.
4. Paid Davis Bros., City, $281.36 for a cash purchase of merchandise.
Enter on the payments side of the cash book as a debit to the Purchases account.
5. Paid $25.00 telephone rent for three months in advance.
6. Bought from the Pickering Hardware Co., Danville, on fifteen days' time, merchandise, $321.97.
Paid Moore & Moore $100.00 on account.
8. Received $116.50 for cash sales.
9. Sold Walter Love, Riverside, on account, one saw, $5.00; one corn sheller, $37.25.
10. Bought from Johnson Bros., Dayton, on fifteen days' time, merchandise $261.85.
Received $18.00 from J. C. Mason in full of account.
11. Paid Moore & Moore $87.65 in full of account.
12. Sold J. C. Miller, City, on account, 100 lbs. lead at 8c; 4 doz. picks at $14.50 per doz.
13. Received $106.95 for cash sales.
Gave Walter Love credit for $5.00, value of the saw sold him on the 9th and returned by him per agreement.
15. Received $20.00 from Walter Love to apply on account.
16. Paid clerk's salary, $30.00.
17. Bought from Donaldson Bros., Mooresville, on account, merchandise, $321.85.
18. Sold Central Construction Co., Arlington, on account, 3 doz. shovels at $9.00 per doz.; 5 doz. picks at $14.00 per doz.; 6 scrapers at $38.50 each.
19. Paid Pickering Hardware Co. $321.97 in full of account.
20. Received $15.60 cash from Davis Bros. for three kegs of nails purchased from them on the 4th and returned by us per agreement.
Paid Johnson Bros. $150.00 on account.
22. Received $125.25 for cash sales.
24. Donaldson Bros. have allowed us credit for $32.60, cutlery purchased from them on the 17th and returned by us per agreement.
Sold Walter Love, Riverside, on account, 1 Studebaker wagon, $125.00.
Paid Johnson Bros. $100.00 to apply on account.
25. Purchased from the Pickering Hardware Co., Danville, on fifteen days' time, merchandise, $127.50.
26. Received $17.25 from Walter Love in full for the corn sheller sold him on the 9th.
27. Received $121.85 for cash sales.
28. Paid rent, $50.00; clerk's salary, $30.00.

When the above transactions have been recorded in the four books of original entry, prove cash (balance, $2,365.42) and rule the cash book as in Illustrations Nos. 22 and 23. Open accounts on a sheet of ledger paper with Cash (8), J. C. Mason (5), Walter Love (7), J. C. Miller (5), Central Construction Co. (5), Moore &

Moore (6), Pickering Hardware Co. (6), Johnson Bros. (6), Donaldson Bros. (5), Donald D. Sells, Capital (8), Sales (10), Purchases (10), Expense (8), allowing for each account the number of lines indicated; post from the books of original entry, and take a Trial Balance of totals.

Retain the ledger and Trial Balance for use in Exercise No. 38.

Exercise No. 25, Purchases Journal, Sales Journal, General Journal and Cash Book.

Record in the purchases, sales (Illustration No. 20), and general journals and the cash book, the following transactions performed during the month of October by H. A. Popp, a retail coal dealer:

Oct. 1. H. A. Popp invested $1,000.00 in the retail coal business.
3. Bought from the Central Coal Co., Jerseyville, on ten days' time, $250.00.
Enter in the purchases journal as Purchase No. 1 and number succeeding entries in this journal in regular order.
Sold J. C. Miller, City, on account, coal per Sale No. 1, $52.50.
4. Bought from Davis Coal Co., Covington, on account, $175.50.
5. Paid $10.00 for one month's telephone service
6. Bought from Jellico Coal Co., Jellico, on fifteen days' time, $362.75.
8. Paid the Central Coal Co. $100.00 on account.
Received $62.80 for cash sales of coal.
9. Sold M. B. Wallace, City, on account, coal per Sale No. 2, $30.50.
10. Paid the Murray Drayage Co. $104.90, freight and drayage bills on coal purchased and delivered.
Received $151.05 for cash sales of coal.
11. Sold the Central Hotel, City, on account, coal per Sale No. 3, $242.50.
12. Paid the Central Coal Co. $150.00 in full of account.
13. Sold J. C. Miller, City, on account, coal per Sale No. 4, $16.50.
15. Paid clerk's salary for the first half of the month, $40.00.
Received $122.00 for cash sales of coal.
16. Received $20.00 from M. B. Wallace on account.
18. Paid the Donaldson Coal Co. $400.00 for coal delivered today.
20. Paid the Jellico Coal Co. $150.00 on account.
The Jellico Coal Co. has allowed us credit for $10.00 overcharge on coal purchased on the 6th.
22. Received $10.50 from M. B. Wallace in full of account.
23. Sold the Central Hotel, City, on account, coal per Sale No. 5, $27.50.
24. Bought from the Davis Coal Co., Covington, on account, $209.38.
25. Received $135.65 for cash sales of coal.
26. Allowed the Central Hotel credit for $2.50, error in weight of coal sold them on the 23d.
Sold M. B. Wallace, City, on account, coal per Sale No. 6, $10.00.
27. Received $200.00 from the Central Hotel to apply on account.
29. Sold J. C. Miller, City, on account, coal per Sale No. 7, $40.00.
30. Received $192.80 for cash sales of coal.
31. Paid rent, $65.00; clerk's salary for the latter half of the month, $40.00.

When the above transactions have been recorded in the four books of original entry, prove cash (balance, $834.90) and rule the cash book. Open accounts on a sheet of ledger paper with Cash (8), J. C. Miller (7), M. B. Wallace (7), Central Hotel (6), Central Coal Co. (6), Davis Coal Co. (6), Jellico Coal Co. (6), H. A. Popp, Capital (8), Sales (12), Purchases (10), Expense (8), allowing for each account the number of lines indicated; post from the books of original entry, and take a Trial Balance of balances.

Retain the ledger and Trial Balance for use in Exercise No. 39.

Summary of Chapters II, III, IV and V. Transactions may be recorded direct in the ledger, in one journal and posted to the ledger, or in special journals and posted to the ledger; the final results are the same in each case. The Trial Balance, if in balance, proves that the total of the debit amounts recorded in the ledger equals the total of the credit amounts recorded in the ledger; also that the addition of those accounts which have more than one amount recorded on the debit or credit side is correct. The Trial Balance may be made by using the total debits and total credits of each account, or the balance of each account; the final results are the same with either method.

Each account is debited and credited through the recording of business transactions. All money received is recorded on the debit side of the Cash account, and all money paid on the credit side. The value of merchandise purchased is recorded on the debit side of the Purchases account, and the value of merchandise returned to a creditor on the credit side of this account. The value of merchandise sold is recorded on the credit side of the Sales account and the value of merchandise which customers return is recorded on the debit side of this account. When a customer buys merchandise and does not pay for it at the time it is purchased, his account is debited for the amount; when he pays this obligation to the business, his account is credited. When a business buys merchandise and does not pay for it at the time of purchase, the account with the creditor is credited; when the business pays this obligation, the account with the creditor is debited. When a customer has paid all he owes, his account will be in balance; when the business has paid a creditor all it owes him, his account will be in balance. The expenses of the business are recorded on the debit side of the Expense account. The owner of the business is credited in his Capital account with the investment, and debited with any amount which he withdraws from the investment.

The purpose of special journals is to save time in recording transactions and posting to the accounts in the ledger. When a number of transactions affect the same account, the amounts debited or credited to this account may be posted in one amount if all these transactions are in one journal. The purchases journal contains a record of all transactions in which merchandise is purchased on account; the sales journal contains a record of all transactions in which merchandise is sold on account; the cash book contains a record of all transactions in which cash is received and paid.

QUESTIONS

1. Describe in detail the labor saved in recording one hundred sales of merchandise on account in the sales journal instead of the journal.
2. Describe in detail the labor saved in recording fifty purchases of merchandise on account in the purchases journal instead of the journal.
3. Can you suggest some method of obtaining a copy of a sale made to a customer on account without writing twice the description of the articles sold?
4. Describe in detail the labor saved in recording one hundred sales in the sales journal, Illustration No. 20, instead of the sales journal, Illustration No. 19, provided you have suggested a means of retaining a copy of the items sold without writing them twice.
5. When is it advisable to record the transactions in a cash receipts journal and a cash payments journal?
6. Is it necessary to enter receipts on the left and payments on the right pages of a cash book?

7. Describe in detail the method of proving cash.
8. Would you consider it advisable to prove cash before posting? Give reason for your answer.
9. Describe in detail the method of recording a purchase of merchandise for cash in the cash book and the purchases journal.
10. Describe in detail the method of entering a cash purchase in the cash book only.
11. What account is debited and credited when the total cash receipts and cash payments are posted at the end of the month?
12. Name the account debited when the total of the purchases journal is posted at the end of the month. What accounts show the credits?
13. What account is affected when the total of the sales journal is posted at the end of the month? How?
14. Why is it necessary to post the total of the purchases journal and the total of the sales journal at the end of the month?
15. If the difference between the two sides of the cash book is greater than the cash on hand, what does this indicate?
16. If the difference between the two sides of the cash book is less than the cash on hand, what does this indicate?
17. If you were keeping books for a retail drug store and the difference between the two sides of the cash book was $10.00 more than the cash on hand, what entry would you make for this $10.00?
18. Have you seen a cash register in operation? If so, can you explain its connection with the entries in the cash book?
19. What does the total of the debit side of the cash book show?
20. What does the total of the credit side of the cash book show?
21. What does the total of the debit side of the Cash account in the ledger show?
22. What does the total of the credit side of the Cash account in the ledger show?
23. Will the balance of cash on hand, as shown by the cash book on December 31, 1921, show the same amount as the balance of the Cash account in the ledger which shows a record of cash transactions from January 1, 1921 to December 31, 1921?
24. What additional information, which is not shown in the cash book, does the owner of a business obtain from the totals of the two sides of the Cash account in the ledger?
25. Name some of the transactions which the bookkeeper for a retail jewelry business might enter in the general journal.

Chapter VI

A MODEL SET

The Purpose of this Model Set is to illustrate the recording of transactions for a period of two months and to serve as a basis for completing the two practice sets which are separate from the text. The references in connection with each transaction correlate the principles discussed in the preceding chapters with the recording of the transactions. Illustrations Nos. 25-38 show the method of recording the transactions for September and October, ruling the books of account, posting, forwarding accounts, and the Trial Balance at the close of each month. The student is not required to record the transactions for September and October, but he should check them with the entries in the illustrations before he begins the first practice set, or as he proceeds with it.

MEMORANDA OF TRANSACTIONS FOR MODEL SET

September

1. W. A. Gordon invested $1,000.00 cash and $500.00 merchandise in the retail grocery business. (Recorded as in the first entry in Illustration No. 29 and the first entry in Illustration No. 28; §§ 43 and 46. Two accounts are debited, §§ 15 and 17, and one account credited, § 34.)

September, 19

Date	L. F.	Account Credited	Address	Terms	Pur. No.	Amount
2	✓	Brown Bros.	City	account	1	✓ 79 30
3	3	King & King	City	"	2	✓ 136 95
5	✓	Brown Bros.	City	cash	3	✓ 1 94
10	✓	Brown Bros.	City	account	4	✓ 2 30
15	✓	Brown Bros.	City	"	5	✓ 2 48
17	3	Lake View Creamery	Dayton	20 days	6	✓ 30
23	✓	Brown Bros.	City	10 "	7	✓ 199 10
29	3	King & King	City	10 "	8	✓ 1,174 75
30	4	Purchases, Dr.	Total			✓ 1292 10

October, 19

Date	L. F.	Account Credited	Address	Terms	Pur. No.	Amount
1	3	Dick McMillan & Co.	Springfield	15 days	9	381 78
15	3	Lake View Creamery	Dayton	20 "	10	48
16	✓	Brown Bros.	City	30 "	11	216 50
20	3	King & King	City	30 "	12	127 65
24	3	Dick McMillan & Co.	Springfield	15 "	13	117 90
27	3	Dawson Bros & Co.	Lebanon	30 "	14	307 55
28	3	King & King	City	30 "	15	141 37
31	4	Purchases. Dr.	Total			1340 75

Illustration No. 25, Purchases Journal for Model Set

2. Bought from Brown Bros., City, on account, merchandise per Purchase No. 1, $79 30. (Recorded as in the first entry, Illustration No. 25; § 38.)

3. Bought from King & King, City, on account, merchandise, per Purchase No. 2, $136.95. (References same as for above transaction.)

4. Paid $25.00 cash for city and state license. (Debit § 32; credit § 15.)

5. Sold A Y. Jordan, 115 Main St., City, on account, merchandise per Sale No. 1, $16.25. (Recorded as in the first entry, Illustration No. 26; § 40.)
Bought from Brown Bros., City, for cash, merchandise per Purchase No. 3, $194.00. (Recorded as in the third entry in Illustration No. 25 and in the second entry in Illustration No. 30.)

6. Received $32.00 for sundry cash sales to date. (Debit § 15; credit § 18.)
Paid Brown Bros $79 30 in full for merchandise purchased on the 2d. (Recorded as in the third entry, Illustration No. 30; § 28.)

8. Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 2, $59.35. (Debit § 27; credit § 18. Illustration No. 26.)

September 19

Date	L. F.	Account Debited	Address	Terms	Sale No.	Amount
5	1	A. Y. Jordan	115 Main St. City	account	1 ✓	16 25
8	1	People's Hotel	165 Willis St. City	"	2 ✓	59 35
11	1	A. Y. Jordan	115 Main St. City	"	3 ✓	56 25
13	1	W. O Burns	Kingston	"	4 ✓	54 40
16	1	People's Hotel	165 Willis St. City	"	5 ✓	51 40
19	1	James O. Wells	416 Broad St. City	"	6 ✓	44 30
22	2	James C. Wells	765 E. 9th St. City	"	7 ✓	26 05
25	1	People's Hotel	165 Willis St. City	"	8 ✓	82 05
26	2	James C. Wells	765 E. 9th St. City	"	9 ✓	44 25
27	2	People's Hotel	165 Willis St. City	"	10 ✓	80 25
30	2	James O Wells	416 Broad St. City	"	11 ✓	37 56
	4	Sales, Cr.-Total			✓	552 11

October 19

4	2	J. C. Taylor	3752 Crescent Ave. City	account	12	132 55
6	2	People's Hotel	165 Willis St. City	"	13	142 50
8	1	A. Y. Jordan	115 Main St. City	"	14	38 50
10	1	A. Y. Jordan	115 Main St. City	"	15	42 50
13	2	People's Hotel	165 Willis St. City	"	16	92 90
15	1	W. O Burns	Kingston	"	17	45 75
17	2	J. C. Taylor	3752 Crescent Ave. City	"	18	86 42
		Carried Forward				581 12

Illustration No. 26, Page 1 of the Sales Journal for Model Set.

October, 19

Date	L. F.	Account Debited	Address	Terms	Sale No.	Amount
		Brought Forward				58112
21	2	J. C. Taylor	352 Crescent Ave, City	account	17	55 40
22	1	James O. Wills	416 Broad St, City	"	20	51 40
23	2	People's Hotel	165 Willis St, City	"	21	162 25
25	2	People's Hotel	165 Willis St, City	"	22	116 65
27	1	W. O. Burns	Kingston	"	23	12 50
28	1	James O. Wills	416 Broad St, City	"	24	38 65
29	2	Robert E. Cowan	317 Burnett Ave, City	"	25	106 85
31	4	Sales, Cr. — Total				1074 80

Illustration No 27, Page 2 of the Sales Journal for Model Set.

9. Received $10.00 from A. Y. Jordan to apply on merchandise sold him on the 5th. (Debit § 15; credit § 27. Illustration No. 29.)

10. Bought from Brown Bros., City, on account, merchandise per Purchase No. 4, $230.00. (Debit § 17; credit § 28. Illustration No. 25.)

11. Sold A. Y. Jordan, 115 Main St., City, on account, merchandise per Sale No. 3, $56.25. (Debit § 27; credit § 18. Illustration No. 26.)

12. Received $30.50 from People's Hotel to apply on account.

13. Received $40.00 for sundry cash sales to date. (Debit § 15; credit § 18.)
Paid King & King $100.00 to apply on account. (Debit § 28; credit § 15.)
Sold W. O. Burns, Kingston, on account, merchandise per Sale No. 4, $54.40. (Debit § 27; credit § 18. Illustration No. 26.)

15. Bought from Brown Bros., City, on account, merchandise per Purchase No. 5, $248.00. (Debit § 17; credit § 28. Illustration No. 25.)
Proved cash (balance, $714.20) and posted. (§ 44; § 39; § 41; § 45; § 46, ¶ 5. Illustrations Nos. 33, 34, 35 and 36.)

16. Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 5, $51.40. (Illustration No. 26.)

17. Bought from Lake View Creamery, Dayton, on 20 days' time, merchandise per Purchase No. 6, $30.00. (Illustration No. 25.)

18. Received $35.00 from W. O. Burns to apply on merchandise sold him on the 13th. (Illustration No. 29.)

19. Sold James O. Wills, 416 Broad St., City, on account, merchandise per Sale No. 6, $44.30. (Illustration No. 26.)
Allowed People's Hotel credit for $9.10, one barrel flour, purchased on the 16th, returned because it had been damaged by coming in contact with kerosene. (§ 18, ¶ 1; § 27, ¶ 2; § 46, ¶ 2. Illustration No. 28.)

20. Paid King & King $36.95 in full of account. (Illustration No. 30.)
Received $65.00 for sundry cash sales to date. (Illustration No. 29.)

22. Sold James C. Wells, 765 E. 9th St., City, on account, merchandise per Sale No. 7, $26.05. (Illustration No. 26.)

(*Continued on page 65.*)

September 1, 19

4	Purchases	✓	500	
3	W. A. Gordon, Capital			✓ 500
	Merchandise on hand at the beginning of business.			
	19			
4	Sales	✓	910	
1	People's Hotel			✓ 910
	1 bbl. flour returned in damaged condition.			
	23			
2	Brown Bros.	✓	1260	
4	Purchases			✓ 1260
	3 cases canned peaches at $14.20, purchased 9/10, returned per agreement.			
	October 2			
1	James O. Wells		37.56	
2	James O. Wells			37.56
	To correct error in account debited for sale of 9/30			
	20			
3	Brown Bros.		10	
4	Purchases			10
	To correct error in extension for purchase of 9/23.			
	24			
4	Sales		375	
1	A. Y. Jordan			375
	2 hams sold 9/10 returned.			
	27			
2	W. O. Burns		60	
4	Expense			60
	Stamps used to send merchandise sold this date, by parcel post.			

Illustration No. 28, Page 1 of the General Journal for Model Set.

23. Bought from Brown Bros., City, on 10 days' time, merchandise per Purchase No. 7, $199.10. (Illustration No. 25.)

Received credit from Brown Bros. for $12.60, three cases of canned peaches at $4.20, purchased on the 10th, returned per agreement. (§ 28, ¶ 1; § 17, ¶ 2; § 46, ¶ 2. Illustration No. 28.)

24. Received $15.00 from People's Hotel to apply on account.

25. Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 8, $82.05. (Illustration No. 26.)

26. Received $6.25 from A. Y. Jordan in full for merchandise sold him on the 5th. (Illustration No. 29.)

Sold James C. Wells, 765 E. 9th St., City, on account, merchandise per Sale No. 9, $44.25. (Illustration No. 26.)

27. Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 10, $80.25. (Illustration No. 26.)

Received $44.50 for sundry cash sales to date. (Illustration No. 29.)

29. Bought from King & King, City, on 10 days' time, merchandise per Purchase No. 8, $174.75. (Illustration No. 25.)

Received $65.00 from People's Hotel to apply on account.

30. Paid Brown Bros. $150.00 to apply on merchandise purchased on the 15th. (Illustration No. 30.)

Sold James O. Wills, 416 Broad St., City, on account, merchandise per Sale No. 11, $37.56. (Illustration No. 26.)

Paid bookkeeper's salary for September, $75.00; rent for September, $65.00. (§ 32, ¶ 1; § 15, ¶ 2. Illustration No. 30.)

Proved cash (balance, $618.00), and ruled the cash book. Posted* from the purchases, sales and general journals, and the cash book. Footed and ruled the purchases journal and sales journal; posted the total purchases, sales, cash receipts and cash payments. Took a Trial Balance of balances; checked the Trial Balance because it did not balance due to an error in posting. (Illustration No. 37.)

The check marks on the double line at the left of each amount in the books of original entry indicate that the September Trial Balance did not balance and it was necessary for the bookkeeper to check the posting to ascertain the error. These check marks should be made on the double line to avoid confusion with the figures. It is not always possible to show the exact position of these check marks in the illustrations due to the variation in printing.

October

1. W. A. Gordon withdrew $200.00 cash from his capital.

Bought from Dick, McMillan & Co., Springfield, on 15 days' time, merchandise per Purchase No. 9, $381.78.

2. Received $50.00 from James C. Wells to apply on account. He called attention to our error in debiting him with the sale of September 30; made a correcting entry to adjust this.

Paid the Central Transfer Co. $2.25 cash for freight and drayage on merchandise purchased on September 17.

3. Received $100.00 from People's Hotel to apply on account.

*The accounts resulting from this posting are illustrated on pages 70–73. The arrangement of the accounts in these illustrations is in the same order as the information will be needed in the preparation of the reports to be provided the owner. The reports to be prepared from these accounts are explained in Chapter VII.

*

3. Paid Brown Bros. $199.10 in full for merchandise purchased on Sept. 23.

4. Sold J. C. Taylor, 3752 Crescent Ave., City, on account, merchandise per Sale No. 12, $132.55.
Received $87.65 for sundry cash sales to date.

6. Paid Mrs. W. B. Scott $2.50 for two brooms which she bought and paid for on the 4th and returned to us per agreement.
Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 13, $142.50.

7. Received $50.00 from James O. Wills to apply on account.
Paid Lake View Creamery $30.00 in full for merchandise purchased Sept. 17

8. Sold A. Y. Jordan, 115 Main St., City, on account, merchandise per Sale No. 14, $38.50.

9. Paid King & King $174.75 in full of account.
Paid Brown Bros. $200.00 to apply on merchandise purchased September 10.

10. Sold A. Y. Jordan, 115 Main St., City, on account, merchandise per Sale No. 15, $42.50.

Cash

					Receipts	
19 Sept.	1	3	W. A. Gordon, Capital	Investment	1000	
	6	4	Sales	Cash sales	32	
	9	1	A. Y. Jordan	Acct of sale, 9/5	10	
	12	1	People's Hotel	On account	3050	
	13	4	Sales	Cash sales	40	
				7112.20	1112 50	
	18	1	W. O. Burns	Acct. of sale, 9/13	35	
	20	4	Sales	Cash sales	65	
	24	1	People's Hotel	On account	15	
	26	1	A. Y. Jordan	Full of sale 9/5	625	
	27	4	Sales	Cash sales	4450	
	29	2	People's Hotel	On account	65	
					1343 25	
	30	1	Cash, Dr.	Total receipts		1343 25
Oct.	1	2	Balance	On hand		618
	2	2	James C. Wells	On account	50	
	3	2	People's Hotel	" "	100	
	4	4	Sales	Cash sales	8765	
	7	1	James O. Wills	On account	50	
	11	1	W. O. Burns	Full of sale 9/13	1940	
	11	4	Sales	Cash sales	10980	
	15	2	People's Hotel	On account	50	
				257.75	46685	
			Carried Forward		46685	618

Illustration No. 29, Page 2, Receipts Side of Cash Book for Model Set.

11. Received $19.40 from W. O. Burns in full for merchandise sold him Sept. 13.
Received $109.80 for sundry cash sales to date.

13. Paid $18.50 for repairs in the office.
Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 16, $92.90.

15. Bought from Lake View Creamery, Dayton, on 20 days' time, merchandise per Purchase No. 10. $48.00.
Received $50.00 from People's Hotel to apply on account.
Sold W. O. Burns, Kingston, on account, merchandise per Sale No. 17, $45.75.
Proved cash (balance, $257.75) and posted.

16. Bought from Brown Bros., City, on 30 days' time, merchandise per Purchase No. 11, $216.50.
Paid Dick, McMillan & Co. $381.78 in full of account.

17. Sold J. C. Taylor, 3752 Crescent Ave., City, on account, merchandise per Sale No. 18, $86.42.
Paid $5.00 for stamps.

18. Paid Brown Bros. $98.00, balance due on merchandise purchased Sept. 15.
Received $129.50 for sundry cash sales to date.

Cash

Payments

19					
Sept.	4	4	Expense	City and state license	25
	5	2	Brown Bros.	Cash purchase	194
	6	2	Brown Bros.	Full of purchase a/c	7930
	13	3	King & King	On account	10000
	20	3	King & King	Full of account	3695
	30	2	Brown Bros.	Acct. of purchase 9/15	150
	30	4	Expense	Clk's salary, rent 75.00 25.00	14000
	30	1	Cash Cr.	Total payments	72525

1343 25

Oct.	1	3	W. A. Gordon, Capital	Withdrew from Capital	200
	2	4	Purchases	Freight and drayage	225
	3	2	Brown Bros.	Full of purchase a/c	10910
	6	4	Sales	Mdse returned	250
	7	3	Lake View Creamery	Full of purchase 9/7	30
	9	3	King & King	Full of account	17475
	9	2	Brown Bros.	Acct. of purchase 9/10	200
	13	4	Expense	Repairs in office	1550
			Carried Forward		82710

Illustration No. 30, Page 3, Payments Side of Cash Book for Model Set.

Cash

Receipts

19						
			Brought Forward		466 85	6 18
Oct.	18	4	Sales	Cash sales	129 50	
	21	4	Expense	Sold stamps	50	
	22	2	People's Hotel	Full of sales in Sept.	3 45	
	23	1	W. O. Burns	On account	25	
	25	2	James C. Wells	Full of account	20 30	
	27	4	Sales	Cash sales	136 45	
	29	2	People's Hotel	On account	50	
	30	1	A. Y. Jordan	Full of sale 9/10	56 25	
	31	2	J. C. Taylor	On account	150	
	31	4	Sales	Cash sales	87 19	
	31	1	Cash, Dr	Total receipts	1125 49	1125 49
						1743 49
Nov.	1	✓	Balance	On hand		291 61

Illustration No. 31, Page 4, Receipts Side of Cash Book for Model Set.

20. Bought from King & King, City, on 30 days' time, merchandise per Purchase No. 12, $127.65.
Discovered an error of $10.00 in the calculations for the purchase from Brown Bros. on September 23, and received instructions from them to debit their account with this amount.

21. Sold J. C. Taylor, 3752 Crescent Ave., City, on account, merchandise per Sale No. 19, $55.40.

Sold a customer stamps for cash, 50c.

22. Received $3.45 from People's Hotel in full for all merchandise sold them in September, less all credits to date.
Sold James O. Wills, 416 Broad St., City, on account, merchandise per Sale No. 20, $51.40.

23. Received $25.00 from W. O. Burns to apply on account.
Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 21, $162.25.

24. Gave A. Y. Jordan credit for $3.75, two hams sold him on the 10th and returned per agreement.
Bought from Dick, McMillan & Co., Springfield, on 15 days' time, merchandise per Purchase No. 13, $117.90.

25. Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 22, $116.65.
Received $20.30 from James C. Wells in full of account.

27. Received $136.45 for sundry cash sales to date.
Bought from Dawson Bros. & Co., Lebanon, on 30 days' time, merchandise per Purchase No. 14, $307.55.

Cash

19					Payments	
			Brought Forward		8270	
Oct.	16	3	Dick, McMillan & Co.	Full of account	3818	
	17	4	Expense	Emerit stamps	5	
	18	3	Brown Bros.	Full of purchase 7.50 - 1.52	98	
	31	4	Expense	Bks salary, rent	140	
	31	1	Cash, Co.	Total payments	145188	145188
						174349

Illustration No. 32, Page 5, Payments Side of Cash Book for Model Set.

27. Sold W. O. Burns, Kingston, on account, merchandise per Sale No. 23, $12.50. Shipped package to him by parcel post and debited his account with 60c, the required amount of postage.

28. Sold James O. Wills, 416 Broad St., City, on account, merchandise per Sale No. 24, $38.65.
Bought from King & King, City, on 30 days' time, merchandise per Purchase No. 15, $141.37.

29. Received $50.00 from People's Hotel to apply on account.
Sold Robert E. Cowan, 3175 Burnet Ave., City, on account, merchandise per Sale No. 25, $61.83.

30. Received $56.25 from A. Y. Jordan for balance due on merchandise sold him September 11.

31. Received $150.00 from J. C. Taylor to apply on account.
Received $87.19 for sundry cash sales to date.
Paid bookkeeper's salary for October, $75.00; rent for October, $65.00.
Proved cash (balance, $291.61) and ruled the cash book.
Took stock of the merchandise in the store so that the bookkeeper might prepare the necessary reports showing the assets, liabilities, income, costs and net income for the two months during which the business has been operated. The usual monthly Trial Balance was taken including the information necessary in the preparation of reports. Balanced the Cash account.

The foregoing instructions include posting all entries, ruling the purchases and sales journal, and the posting of the total purchases, sales, cash receipts and cash payments. The results of the instructions are shown in Illustrations Nos. 25–36 and 38. The Cash account after it is balanced is shown at the top of page 70; it is customary to balance the Cash account at the end of the business year. The work of preparing the reports of the operations of the business showing the facts which Mr. Gordon desires are explained in Chapter VII.

Cash

19 Sept. 30	618.00	C2	1343 25	19 Sept. 30		C3	725 25
Oct. 31		C4	1125 49	Oct. 31		C5	1451 88
			2468 74				2177 13
			2468 74				2468 74
Nov. 1	Balance	✓	291 61				

A. Y. Jordan
115 Main St. City

19 Sept. 5		S a	16 25	19 Sept. 9		C2 a	10
11	56.25	S1 c	56 25	26		C2 a	6 25
Oct. 8		S	38 50	Oct. 24	Returned	J1 b	3 75
10	77.25	S1 b	42 50	30		C4 c	56 25
			132 25				60

People's Hotel
165 Willis St. City

19 Sept. 8		S1 ✓	59 35	19 Sept. 12		C2 ✓	30 50
16		S1 ✓	51 40	19	Returned	J1 ✓	9 10
25		S1 ✓	82 05	24		C2 ✓	15
			192 80				54 60
			192 80				192 80

W. O. Burns
Kingston

19 Sept. 13	19.40	S1 a	54 40	19 Sept. 18		C2 a	35
Oct. 15		S1	45 75	Oct. 11		C2 a	19 40
27		S2	12 50	23		C4	25
27	Postage 33 85	J1	58 60				

James O. Wills
416 Broad St. City

19 Sept. 19	44 30	S1	44 30	19 Oct. 7		C2	50
Oct. 2	Sept. 30-acct	J1	37 56				
22		S2	51 40				
28	121.91	S2	38 65				
			171 91				

Illustration No. 33, Page 1 of the Ledger for Model Set.

James C. Wells
765 E 9th St, City

19					19			
Sept	22		L1	26 05	Oct	2	C2	50
	26		L1	44 25		2	L1	37 56
	30	1078	L1	37 56		25	C4	20 30

J. C Taylor
3752 Crescent Ave City

19					19			
Oct	4		L1	132 55	Oct	31	C4	150
	17		L1	86 42				
	21	24.37	L2	55 42				

Robert E Cowan
3175 Burnet Ave, City

19				
Oct	29	6.51	L2	61 83

Peoples Hotel
125 Willis St City

19					19			
Sept	25	Balance forwd	1	138 20	Sept	29	C2	65
	27	15345	L1	50 25	Oct	3	C2	100
Oct	6		L1	142 50		15	C2	50
	13		L1	92 90		22	C4	3 45
	23		L2	162 25		29	C4	50
	25	4643	L2	116 65				

Brown Bros.
City

19					19				
Sept	5		C3 a	194	Sept	2		P1 b	79 30
	6		C3 b	79 30		5		P1 a	194
	23	Returned	L1 c	12 60		10		P1 c	230
	30		C3 d	150		15		P1 d	248
Oct	3		C3 e	199 10		23	10 days 5% 50	P1 a	199 10
	9		C3 c	200	Oct	16	30 "	P1	216 50
	16	Carried forwd	3	561 70			Carried forwd 3		893 60

Illustration No. 34, Page 2 of the Ledger for Model Set.

King & King, City.

19 Sept.	13		C3	100	19 Sept.	3		P1	136 95
	20		C3	1 39 95		29	10 days 174.75	P1	174 75
Oct.	9		C3	174 75	Oct.	20	30 "	P1	127 65
						28	30 " 269.02	P1	141 37½

Lake View Creamery, Dayton.

19 Oct.	7		C3	30	19 Sept.	17	20 days 30.00	P1	30
					Oct.	15	20 " 48.00	P1	48

Dick, McMillan & Co. Springfield.

19 Oct.	16		C5	381 78	19 Oct.	1	15 days	P1	381 78
						24	15 " 117.90	P1	117 90

Dawson Bros. & Co. Lebanon.

					19 Oct.	27	30 days 307.55	P1	307 55

Brown Bros. City.

19 Oct.	16	Brot forwd	✓	561 70	Oct.	16	Brot forwd 223.70	✓	893 60
	18		C5 d	98					
	20	Error	£1	10 70					

H. C. Gordon, Capital.

19 Oct.	1		C3	205	Sept.	1		C2	1000
						1	1300 00	J1	✓ 500

Illustration No. 35. Page 3 of the Ledger for Model Set.

Sales

19				19			
Sept.	19	$1	910	Sept.	6		C2 37
Oct.	6	C3	750		13		C2 110
	24	$1	1,375		20		C2 65
					27		C2 4450
					30	72451	$1 5,521.1
				Oct.	4		C2 8765
					11		C2 10960
					18		C4 12950
					27		C4 13645
					31		C4 8719
					31		$2 10,379.80

Purchases

19				19			
Sept.	1	Inventory	$1 500	Sept.	23		$1 1760
	30		1779.50	Oct.	20		J1 12.00
Oct.	2	Freight & Drayage	C3 225		31		
	31		P1 13,405.10		31		

Expense

19				19				
Sept.	4		C9 25	Oct.	21	Stamps	C4	50
	30	165.00	C9 1,405		27	"	$1	16.00
Oct.	13		C3 1850					
	17		C5 5					
	31	327.40	C5 1,280.50					

Illustration No. 36, Page 4 of the Ledger for Model Set.

W. A. Gordon
Trial Balance, September 30, 19

1	Cash	618	
1	A. Y. Jordan	5625	
1	W. O. Burns	1940	
1	James O. Wills	4430	
2	James C. Wells	10786	
2	People's Hotel	15345	
2	Brown Bros		51450
3	King & King		17475
3	Lake View Creamery		30
3	W. A. Gordon, Capital		1500
4	Sales		72451
4	Purchases	177950	
4	Expense	1165	
		294376	294376
		294376	294376

Illustration No. 37, Trial Balance of Balances for First Month of Model Set.

W. A. Gordon
Trial Balance October 31, 19

1	Cash	29161	
1	A. Y. Jordan	7725	
1	W. O. Burns	3385	
2	James O. Wills	12191	
2	J. C. Taylor	12437	
2	Robert E. Cowan	6183	
2	People's Hotel	46430	
3	King & King		26902
3	Lake View Creamery		48
3	Dick, McMillan & Co		11790
3	Dawson Bros. & Co		30755
3	Brown Bros		22390
3	W. A. Gordon, Capital		1300
4	Sales	1535	2364
4	Purchases (Inv 500.00, Pur 2635.10)	313510	2260
4	Expense	32740	
		465297	465297
		465297	465297

Illustration No. 38, Trial Balance for Second Month of Model Set.

The purpose of showing both sides of the Purchases and Sales accounts, the merchandise inventory at the beginning of the fiscal period and purchases during the period is explained in Chapter VII.

Exercise No. 26, Recording Transactions, Posting and Trial Balance.

Record the transactions given below in the purchases, sales and general journals, and the cash book. All purchases and sales except those for cash are "on account" and are entered in the purchases or sales journal; number the entries in each of these journals in regular order, beginning with one.

April 1. J. N. Fulton invests $1,500.00 in the radio supply business.
2. Bought from Standard Radio Co., Chicago, supplies, $681.70.
3. Paid rent for month, $45.00, and telephone service, $15.00.
4. Sold Davis Bros., City, 100 ft. No. 14 aerial wire, 45c; 1 Willard radio storage battery, $12.00.
5. Paid $365.87 for cash purchase of radio supplies.
9. Bought from the Radio Service Co., Dayton, supplies, $962.48.
12. Paid $37.50 insurance on stock. (Debit Expense.)
15. Received for cash sales to date, $350.60.
17. Paid $25.00 for stamps and stationery.
18. Paid Standard Radio Co. $38.70, on account.
Received credit from Radio Service Co. for supplies returned, $20.15.
19. Sold Caleb Fall, City, 1 Thordarson amplifying transformer, $4.00; 1 Remler detector panel, $8.00.
20. Sold Jacob Dolittle, City, 200 ft. 7-strand aerial wire, $1.50; 1 doz. aerial insulators, $3.00; 2 test buzzers, $1.30; 2 Willard storage batteries, $24.00; 2 doz. switch points, 60c.
23. Sold Joe Smith, for cash, 200 ft. No. 14 aerial wire, 90c.
24. Gave Joe Smith 45c for 100 ft. aerial wire which he returned.
26. Received $15.00 from Jacob Dolittle, to apply on account.
27. Sold A. J. Bowen, Columbus, 1 mounted crystal detector, $1.95. Debit his account with 75c, postage required on this shipment.
30. Sold A. F. Shaw, City, 1 complete radio outfit, $125.00, to be installed under our inspection, installation cost to be paid by him.
Received for cash sales to date, $414.85.
Paid clerk's salary, $80.00.

Prove cash (balance, $1,673.83), rule the cash book and purchases and sales journals, and post all entries including the totals. Arrange the accounts in the ledger as in the Model Set, allowing five lines for each personal account and eight lines for each of the other accounts. Take a Trial Balance of balances.

May 1. Sold Davis Bros., City, 6 "B" Batteries, 22½ volt, $11.70; 1 loud speaker, $15.00; 1 filament rheostat, $1.25.
2. Bought from Standard Radio Co., Chicago, supplies, $343.60.
Received for cash sales to date, $157.81.
Gave the Radio Service Co. $600.00 to apply on account.
3. Sold Caleb Fall, City, 1 New Howard rheostat, $1.10; 6 porcelain V. T. sockets, $2.70.
Received check from A. J. Bowen in full of account.
Received a bill from the Kelly Electric Co. for $24.50, installation cost of the radio outfit sold A. F. Shaw on April 30.

Debit A. F. Shaw and credit Kelly Electric Co. in the general journal.

4. Paid Lawton Express Co. $26.17, freight and drayage on purchases.
Gave Caleb Fall credit for 45c because one of the porcelain V. T. sockets sold him on the third was defective.
Sold the entire stock of merchandise for $2,000.00 cash.

Prove cash (balance $3,208.17), rule the cash book and purchases and sales journals, and post all entries including the totals. Take a Trial Balance, using both sides of the Sales and Purchases accounts and the balances of the other accounts.

Retain the ledger and Trial Balance for use in Exercise No. 40.

QUESTIONS ON THE MODEL SET

These questions refer to Illustrations Nos. 25–38.

1. What do the check marks (√) at the left of the amounts in the books of original entry, ledger, and Trial Balance for the month of September, indicate?
2. Why are there no check marks at the left of the amounts for the month of October?
3. Why did the Trial Balance September 30 balance when there was an error in one of the accounts as indicated by the adjusting entry in the general journal October 2?
4. Explain the transactions recorded in the account of A. Y. Jordan without referring to a book of original entry.
5. Why is the Expense account credited in the general journal entry of October 27?
6. Does the general journal entry of October 2 change the value of the assets or liabilities of the business?
7. Why is the People's Hotel account not ruled on the same blue line on each side on October 22?
8. Explain the transactions in the account of Brown Bros. without referring to a book of original entry.
9. When is payment due for the merchandise purchased from Brown Bros. October 16?
10. Why are both sides of the account with Brown Bros. carried forward and the balance of the account with the People's Hotel carried forward?
11. What indicates that the People's Hotel account is that of a customer and Brown Bros. that of a creditor?
12. What is the balance due on the merchandise sold A. Y. Jordan October 10?
13. Why not forward the totals of both columns of the general journal in the same manner as the totals of the purchases journal and sales journal?
14. Why is the total of each side of the cash book forwarded and not the balance?
15. When is it necessary to forward the totals of a book of original entry?
16. What information is shown in the Cash account which is not shown in the cash book?
17. Why is the double ruling in the cash book on the same blue line on each side?
18. Why is it necessary to write in the cash book the date of the purchase or sale when cash is paid or received to apply on that particular purchase or sale?
19. Why is the cash balance carried down below the double ruling on the debit side of the cash book and entered in the second column?
20. What information of value does the owner of the business obtain from the entries on the debit side of the Sales account?
21. Why is the Purchases account credited in the general journal entry of September 23?
22. Why is the Sales account debited in the general journal entry of October 24?
23. If Sales had been credited for the first transaction of October 23, (a) what accounts would have been affected and (b) how affected?
24. If the owner wished to know the value of merchandise in stock, from what accounts could he ascertain this information?
25. Why is W. O. Burns debited in the general journal entry of October 27?

Chapter VII

BALANCE SHEET AND STATEMENT OF PROFIT AND LOSS

The Purpose of this Chapter is to explain the Balance Sheet and Statement of Profit and Loss—two reports prepared by the bookkeeper for the information of the owner. The illustrations are applicable to the business of W. A. Gordon in the Model Set, Chapter VI. The income tax return for an individual is explained and illustrated in Appendix C.

§ 47. **Fiscal Period.** The owner of a business will want to know from time to time the results of his operations because he has invested cash or other assets in the business with the purpose of making a profit. Since the Federal Government requires a report of the results of the operations of the business for one year in order to ascertain the amount of income tax the business is to pay, the owner usually ascertains the results of operating the business yearly. However, if the nature of the business is such that the profit should be ascertained more often, the owner can obtain this information at such times as he desires, but this does not release him from the yearly report required by the Federal Government. The period of operation for which the profit is ascertained is referred to as the *fiscal period*, which, as explained, may be for one year or such part of a year as the owner may designate.

§ 48. **Method of Ascertaining the Profit or Loss.** The profit or loss resulting from the operations of a business is (1) the difference between the proprietorship at the beginning and the proprietorship at the end of a fiscal period, and (2) the difference between the income and the cost for the period. If the value received and the value parted with in each transaction are recorded, the profit or loss will be the same with each of the two methods. When ascertaining the profit or loss by subtracting the proprietorship at the beginning and end of the period, it is necessary to take into consideration withdrawals from capital and additional investments during the period.

The proprietorship of W. O. Crosswhite, a retail grocer, January 1, is $8,000.00, and on December 31 of the same year, $11,500.00. If he has not withdrawn part of his invested capital or invested additional capital during the year, his net profit is $3,500.00; if he had withdrawn $500.00 from his capital during the year, his net profit would have been $4,000.00, and if he had invested an additional $500.00 during the year, his net profit would have been $3,000.00. If, during the same year, the income resulting from the operations of the grocery business conducted by Mr. Crosswhite is $6,500.00 and the cost, $3,000.00, his net profit is $3,500.00. It is necessary for Mr. Crosswhite to know the amount of the income and cost as well as the net profit, because he must submit this information on his income tax return as explained in Appendix C.

§ 49. **A Merchandise Inventory** is the value of all merchandise in stock at the close of a fiscal period as shown by a written list of this merchandise. The information on this list includes the quantity and description of each kind of merchandise and its value at cost or present market price whichever is the lower.

It is necessary to ascertain the value of the merchandise owned by the business through an inventory at the close of the fiscal period because it is one of the assets and its value is not shown in either the Purchases or the Sales account. The Pur-

chases account shows the cost of the merchandise bought, and the Sales account the returns from sales, but the value of the merchandise in stock is not shown as a result of this record because the selling price is greater than the cost price.

A unit record of the merchandise purchased and sold may be kept in certain lines of business, such as musical instruments, shoes, clothing, and furniture; but in other lines, such as hardware, groceries, and dry goods, it is not practicable to keep a record of each unit purchased and sold. It is necessary to ascertain the value of merchandise in stock by an inventory at the close of the fiscal period whether or not a record of the units purchased and sold is kept, because of thefts, errors in filling orders, and many other causes which result in the number of units shown by the record not corresponding with the number of units on hand.

An inventory of the following merchandise owned by W. A. Gordon and in stock by actual count at the close of the fiscal period ending October 31, would appear in inventory form as in Illustration No. 39:

Granulated sugar, 1,216 lbs., cost $4.50 per 100 lbs.; 1,183 lbs. brown sugar, cost $4.10 per 100 lbs.; 256 lbs. roasted coffee, cost 22c per lb.; 1,802 lbs. bacon, cost 15c per lb.; 8 hams, 183 lbs., cost 17c per lb.; 5 cans, 261 lbs., lard, cost 16c per lb.; 24 doz. cans tomatoes, cost $1.10 per doz.; 20 doz. cans pineapples, cost $2.00 per doz.; 18 doz. cans peaches, cost $1.95 per doz.; 20 doz. cans corn, cost $1.50 per doz.; 268 lbs. creamery butter, cost 33c per lb.; 60 bbls. Blue Ribbon flour, cost $5.10 per bbl.; 34 bbls. White Rose flour, cost $5.25 per bbl.; 25 bbls. Fancy flour, cost $6.00 per bbl.; 25 bu. beans, cost $1.60 per bu.; 20 bxs. Werk's soap, cost $4.00 per box.

W. A. Gordon
Merchandise Inventory, October 31, 19

1216	lbs	Granulated Sugar (per 100#)	4.50	54 72
1183	"	Brown Sugar " "	4.10	48 50
256	"	Roasted Coffee	.22	56 32
1802	"	Bacon	.15	270 30
8		Hams, 183 lbs	.17	31 11
5	cans	261 lbs Lard	.16	41 76
24	doz.	cans Tomatoes	1.10	26 40
20	"	" Pineapples	2.00	40
18	"	" Peaches	1.95	35 10
20	"	" Corn	1.50	30
268	lbs	Creamery Butter	.33	88 44
60	bbls	Blue Ribbon Flour	5.10	306
34	"	White Rose Flour	5.25	178 50
25	"	Fancy Flour	6.00	150
25	bu	Beans	1.60	40
20	bxs	Werk's Soap	4.00	80
		Value of Merchandise on hand		1477 15

Illustration No. 39, Inventory of Groceries, Model Set.

EXPLANATION. The quantities indicated by the figures at the left were obtained by weighing or counting the articles in stock. The price was ascertained from the invoices. This price includes not only the invoice cost but also the freight cost. The figures at the right were ascertained by multiplying the quantity by the price.

Exercise No. 27, Merchandise Inventory.

Prepare on journal paper an inventory for the following merchandise owned by the Fred B. Jenkins Hardware Co. and in stock December 31:

Nails, 10 kegs 8-d., cost $4.50 per keg; 15 kegs 10-d. nails, cost $4.25 per keg; 12 doz. No. 9 hammers, cost $9.00 per doz.; 7 doz. No. 4 Simmons saws, cost $10.00 per doz., present market price, $9.00 per doz.; 5 doz. No. 3 hatchets, cost $8.00 per doz., present market price $7.00 per doz.; 50 gal. Lucas paint, cost $1.75 per gal., present market price, $1.60 per gal.; 25 gal. varnish, cost $2.00 per gal.; 159 lbs. white lead, cost 42c per lb.; 5 No. 3 gas stoves, cost $7.50 each.

Exercise No. 28, Merchandise Inventory.

Prepare on journal paper an inventory for the following merchandise owned by U. R. Underhill Stationery Co., and in stock June 30:

Typewriter desks, 8, cost $65.00 each; 5 used typewriters, cost $62.50 each; 7 chairs, cost $4.50 each; 3 bookkeeper's desks, cost $27.50 each; 14 loose-leaf ledgers, cost $16.50 each; 27 sections No. 9 filing cases, cost $5.60 each; 5 filing cases, cost $6.50 each; 500 reams typewriting paper, cost 35c per ream, present market price, 38c per ream; 65 reams legal paper, cost 90c per ream, present market price, 97c per ream; 150 doz. pen points, cost 32c per doz..

THE BALANCE SHEET

§ 50. The Balance Sheet is a written report of the assets, liabilities, and proprietorship of a business prepared at the close of a fiscal period. The information is obtained from the asset and liability accounts in the ledger (Trial Balance) and the merchandise inventory at the close of the fiscal period. The assets are usually listed as follows: cash, notes receivable (written promises to pay money to the business), accounts with customers, and merchandise inventory. The liabilities are usually listed as follows: notes payable (written promises signed by the business), and accounts with creditors. The accounts should be arranged in the ledger in the order in which they appear on the Balance Sheet.

The Balance Sheet may be prepared in "account" form (Illustration No. 40) or "report" form (Illustration No. 41). Either form is correct, but accountants usually prefer the account form because it shows assets opposite liabilities; this information is of value to the owner of the business in determining his financial condition because the liabilities must be paid out of the assets.

The assets and liabilities of W. A. Gordon as shown by the accounts in his ledger on pages 70, 71 and 72, October 31, are as follows:

Assets:		
Cash		$291.61
Accounts Receivable:		
A. Y. Jordan	77.25	
W. O. Burns	33.85	
James O. Wills	121.91	
J. C. Taylor	124.37	
Robt. E. Cowan	61.83	
People's Hotel	464.30	
Liabilities:		
Accounts Payable:		
King & King	269.02	
Lake View Creamery	48.00	
Dick, McMillan & Co	117.90	
Dawson Bros. & Co	307.55	
Brown Bros	223.90	

Merchandise Inventory, October 31 (Illustration No. 39), $1,477.15.

A Balance Sheet prepared in account form from this information will appear as in Illustration No. 40, and in report form, as in Illustration No. 41.

W. A. Gordon
Balance Sheet, October 31, 19

Assets			Liabilities:		
Cash	29 16		King & King	26 90	
A. V. Gordan	77 25		Lake View Creamery	48	
W. C. Burns	33 85		Dick McMillan Co	11 79	
James O. Wills	12 19		Dawson Bros & Co	30 75	
J. C. Taylor	12 43 7		Brown Bros.	22 3 90	
Robert E. Cowan	6 1 83		Total Liabilities		96 63 7
People's Hotel	46 4 30		Capital Account:		
Miscellaneous Inventory Oct 31	1 47 7 1 5		W. A. Gordon Capital		168 59 0
Total Assets.		265 22 7	Total Liabilities and Capital		265 22 7

Illustration No. 40, Balance Sheet for Model Set, "Account" Form.

EXPLANATION. This illustration shows the Balance Sheet for W. A. Gordon, prepared in "account" form from the accounts in the ledger on pages 70, 71 and 72 (Trial Balance, page 74) and the inventory of merchandise, page 78. The same information is shown in "report" form in the illustration below.

W. A. Gordon
Balance Sheet, October 31, 19

Assets:		
Cash	29 16	
A. V. Jordan	77 25	
W. C. Burns	33 85	
James O. Wills	12 19	
J. C. Taylor	12 43 7	
Robert E. Cowan	6 1 83	
People's Hotel	46 4 30	
Misc. Inventory, Oct. 31	1 47 7 1 5	
Total Assets		265 22 7
Liabilities:		
King & King	26 90	
Lake View Creamery	48	
Dick, McMillan & Co.	11 79 0	
Dawson Bros. & Co.	30 75	
Brown Bros.	22 3 90	
Total Liabilities		96 63 7
W. A. Gordon, Present Capital		168 59 0
		265 22 7

Illustration No. 41, Balance Sheet for Model Set, "Report" Form.

Exercise No. 29, Balance Sheet.

Prepare a Balance Sheet in account form for J. J. Hagan, who is engaged in the office supplies business, from the following assets and liabilities as shown by the accounts in his ledger at the close of the fiscal period, December 31:

Assets:

Cash	$357.50
Accounts Receivable:	
L. A. Stallman	150.00
W. R. Jones	63.50
Sinton Hotel	132.65
W. H. Wilson	14.50
Robert W. Hill	35.00
J. J. Anderson	36.18
H. R. Kraus	130.00

Liabilities:

Accounts Payable:	
A. Martin Stationery Co	$180.00
Hall Bros	127.50
Laurence & Scott	205.07
O. L. Robertson	192.90
Central Mfg. Co	182.55
Globe-Wernicke Co	100.00

Merchandise Inventory, December 31, $865.40.

Exercise No. 30, Balance Sheet.

Prepare a Balance Sheet in account form for C. M. Becket, a hardware merchant, from the following assets and liabilities as shown by the accounts in his ledger at the close of the fiscal period, June 30:

Assets:

Cash	$850.00
Accounts Receivable:	
C. R. Carter	50.00
J. A. Smith	38.50
John B. Dawes	76.19
A. J. Baird & Son	39.90
Johnson Construction Co	125.50
B. H. Franklin	207.90
C. C. Ernst	260.00

Liabilities:

Accounts Payable:	
Evans Bros. Hdwe. Co	$160.00
D. D. Bowen	350.00
Smith Bros	107.60
A. L. Games & Co	135.00
Pickering Hardware Co	150.00

Merchandise Inventory, June 30, $442.85.

*

Exercise No. 31, Balance Sheet.

Prepare a Balance Sheet in report form for C. H. Sheller, an automobile dealer, from the following assets and liabilities as shown by the accounts in his ledger at the close of the fiscal period, July 31:

Assets:	
Cash	$6,741.85
Accounts Receivable:	
J. W. Hayes	44.75
J. J. Davis	52.40
Robert Humphries	452.00
A. L. Arnot	9.65
T. M. Bowen	55.15
Liabilities:	
Accounts Payable:	
Packard Automobile Co	$1,500.00
Warner-Lenz Co	152.50
Goodyear Rubber Co	250.00
Citizens Motor Car Co	350.00

Merchandise Inventory, July 31, $6,181.75.

STATEMENT OF PROFIT AND LOSS

§ 51. **The Statement of Profit and Loss** is a written report of the income, costs, and net profit or loss resulting from the operations of a business during a fiscal period, prepared at the close of the period. This information is obtained from the income and cost accounts in the ledger (Trial Balance) and the inventory of merchandise at the close of the period. The report should show (1) the net sales, (2) the cost of the merchandise sold, (3) the profit made by selling merchandise, (4) the operating cost of the business, and (5) the net profit or loss. The accounts should be arranged in the ledger in the order in which they appear on the Statement of Profit and Loss so that this report can be prepared from the Trial Balance without rearranging the accounts thereon.

The Statement of Profit and Loss may be prepared in account form or in report form (Illustration No. 42), the same as the Balance Sheet. Accountants usually prefer the report form because the deductions in connection with ascertaining the profit on sales and the operating cost of the business can be shown more distinctly in this form.

The income, costs, and beginning inventory of W. A. Gordon, as shown by the accounts in his ledger October 31, page 73, are as follows:

Income:	
Sales of merchandise	$2,364.00
Less merchandise returned by customers	15.35
Costs:	
Inventory, September 1 (beginning)	500.00
Purchases of merchandise during the period	2,635.10
Less merchandise returned to creditors	22.60
Expense (operating cost) for the period	327.40

The merchandise inventory at the close of the fiscal period, October 31 (Illustration No. 39), is $1,477.15.

A Statement of Profit and Loss prepared in report form from this information will appear as in Illustration No. 42.

W. A. Gordon
Statement of Profit & Loss, October 31, 19

Returns from Sales:			
Gross Sales			2364
Deduct Sales Returns			1535
Net returns from mdse. sold			348 65
Cost of Sales:			
Mdse Inventory 9/1	500.00		
Add Purchases	2635 10	3135.10	
Deduct Purchases Returns	22.60	3112 50	
" Mdse Inventory, 10/31		1477 15	
Net cost of mdse sold			1635 35
Gross Profit on Sales			713 30
Operating Cost:			
Expense			327 40
Net Profit			385 90
Proof			
W. A. Gordon, Present Capital (Bal Sheet)			1685 90
W. A. Gordon's Net Investment		1300	
Add Net Profit		385 90	
		1685 90	1685 90

Illustration No. 42, Statement of Profit and Loss for Model Set, "Report" Form.

EXPLANATION. This illustration shows the Statement of Profit and Loss (income and cost) for W. A. Gordon, prepared in "report" form from the income and cost accounts in the ledger on page 73 (Trial Balance, page 74) and the inventory of merchandise, page 78. The same information may be shown in "account" form in the same manner as in the Balance Sheet, Illustration No. 40. Sales Cr. minus Sales Dr. equals net returns from sales; Purchases Dr. minus Purchases Cr. equals net purchases; net purchases minus inventory at the close of the fiscal period equals cost of merchandise sold; net returns from sales minus cost of merchandise sold equals profit made by selling merchandise; profit made by selling merchandise minus Expense Dr. equals net profit. The "Proof" shown on this statement is explained in § 52.

Exercise No. 32, Statement of Profit and Loss.

Prepare a Statement of Profit and Loss for L. M. Hazen, a retail grocer, from the following information obtained from the accounts in his ledger at the close of the fiscal period, December 31:

Income:	
Sales of merchandise	$685.29
Less merchandise returned by customers	37.10
Costs:	
Inventory, July 1 (beginning)	801.25
Purchases of merchandise during the period	489.50
Less merchandise returned to creditors	24.35
Expense (operating cost) for the period	78.50

The inventory of merchandise, December 31, is $862.45.

Exercise No. 33, Statement of Profit and Loss.

Prepare a Statement of Profit and Loss for A. Reagan, a retail jeweler, from the following information obtained from the accounts in his ledger at the close of the fiscal period, March 31:

Income:	
Sales of merchandise	$1,016.68
Less merchandise returned by customers	20.10
Costs:	
Inventory, January 1 (beginning)	1,216.31
Purchases of merchandise during the period	458.90
Less merchandise returned to creditors	21.11
Expense (operating cost) for the period	154.70

The inventory of merchandise, March 31, is $1,127.36.

Exercise No. 34, Statement of Profit and Loss.

Prepare a Statement of Profit and Loss for C. H. Sheller, an automobile dealer, from the following information obtained from the accounts in his ledger at the close of the fiscal period, July 31:

Income:	
Sales of merchandise	$4,907.54
Less merchandise returned by customers	101.32
Costs:	
Inventory, January 1 (beginning)	5,000.00
Purchases of merchandise during the period	4,506.96
Less merchandise returned to creditors	210.11
Expense (operating cost) for the period	406.07

The inventory of merchandise, July 31, is $6,181.75.

§ 52. Relation Between the Two Reports. The Balance Sheet and Statement of Profit and Loss have been discussed independent of each other because the purpose of the discussion was to explain the nature of each report. However, there is a relation between these two reports because the information is obtained from the accounts which show the results of recording business transactions completed by a business during a fiscal period.

If all the accounts on pages 70, 71, 72 and 73 are checked with those accounts used in preparing the Balance Sheet (Illustration No. 40) and the Statement of Profit and Loss (Illustration No. 42), it will be observed that the only account not appearing on either of the two reports is that with W. A. Gordon, Capital; also that the Balance Sheet shows the capital of W. A. Gordon as a different amount from that shown by his Capital account in the ledger. The reason his Capital account as it appears at the close of the fiscal period is not shown on either report is that his proprietorship has increased through the operations of the business; in this case the increase is $385.90, the difference between the net investment and the proprietorship at the close of the period, also the difference between the income and cost.

Because of this relation between the two reports, the bookkeeper can prove the correctness of each report before submitting it to the owner of the business. A proof of the reports in Illustrations Nos. 40 and 42 is given below the Statement of Profit and Loss, Illustration No. 42. If desired, this same proof may be shown in connection with the Balance Sheet.

It is customary to show assets, liabilities, and proprietorship on the Balance Sheet, and income, costs, and the net profit on the Statement of Profit and Loss; hence the proof of the two reports may be made separate from the reports or in connection with one of them.

Exercise No. 35, Balance Sheet and Statement of Profit and Loss.

Prepare a Balance Sheet in report form and a Statement of Profit and Loss from the following Trial Balance and inventory of merchandise, May 31:

Cash	$2,192.35	
Novelty Gift Shop	764.50	
Wharton & Co	810.30	
Timmich Art Co		$ 743.90
Sadler Printing Co		956.30
American Paper Mills		374.05
Counts Bros		78.98
T. B. Stone, Capital		2,000.00
Sales	10.10	2,399.17
Purchases (Inventory, May 1, $1,012.75)	2,621.45	26.30
Expense	180.00	
	$6,578.70	$6,578.70

Merchandise Inventory, May 31, $826.80.

Exercise No. 36, Balance Sheet and Statement of Profit and Loss.

Prepare a Balance Sheet in report form and a Statement of Profit and Loss from the following Trial Balance and inventory of merchandise, June 30:

Cash	$2,330.51	
Rogers Seed Market	535.65	
Terry Grocery Co	1,156.20	
Farmers Exchange	269.49	
Evergreen Flower Shop	282.90	
A. R. Trimble	661.76	
Brookville Nurseries		$2,364.09
Empire Seed Co		1,327.84
L. D. R. Howland, Capital		2,500.00
Sales	32.01	2,595.20
Purchases (Inventory, June 1, $906.75)	3,296.95	61.13
Expense	282.79	
	$8,848.26	$8,848.26

Merchandise Inventory, June 30, $740.22.

QUESTIONS

1. If Robert Brown pays $5,000.00 cash for a grocery business on January 1, 1920, and sells it for $6,500.00 cash on December 31, 1921, does this indicate that the net profit resulting from the operations of the business is $1,500.00?
2. On June 30, 1921, George A. Clark, who owns and operates a gasoline service station, wishes to borrow $2,000.00 from the bank and is requested to make a report to the bank of the financial condition of his business. Would the bank require a Balance Sheet or a Statement of Profit and Loss? What information would it require?
3. What is A. L. Day's profit or loss for the year 1922 if his proprietorship at the beginning of the year is $3,000.00; investments during the year, $1,000.00; withdrawals during the year, $500.00; and his proprietorship at the end of the year is $5,000.00?

4. October 31, 1921, the profit and loss accounts of J. B. Sullivan as shown by the Trial Balance taken on that date are as follows: General Expense, $857.50; Selling Expense, $1,252.80; Delivery Expense, $609.75; Sales, Dr., $165.60, Cr., $3,875.92; Purchases, Dr., $1,888.95, Cr., $32.50. The merchandise inventory is $561.12. Has his business been operated at a profit or a loss? State the amount of the profit or loss.
5. L. J. Strong has been offered the grocery business at 762 Main St. He wishes to know that the merchandise inventory submitted to him by the present owner is correct and asks you to verify it. How would you proceed in making the verification? Why is it necessary to know the value of the merchandise in stock before ascertaining the profit or loss for a fiscal period?
6. If you were the bookkeeper for a business engaged in the sale of Victrolas and Victrola records, could you devise a plan whereby a record could be kept of each article purchased and sold?
7. If such a plan were effected, would the number of units of each kind on hand, as shown by the record, be equal to the number of units in stock, as shown by actual count, at the close of the fiscal period?
8. Name some conditions that might cause a discrepancy between the record and the actual stock on hand.
9. If merchandise which cost $800.00 is inventoried at $600.00, the present market price, what effect will this have on the net profit for the period?
10. If merchandise is inventoried at present market value when this is less than the cost value, why is it not inventoried at present market value when this is greater than the cost?
11. Can you name a condition under which it would be advisable to use the present market value even though this should be greater than the cost?
12. What information does the owner of a business obtain from the Balance Sheet that he can not obtain from the accounts in the ledger?
13. What information does the owner of a business obtain from the Statement of Profit and Loss which he can not obtain from the accounts in the ledger?
14. Why is "Cash" listed first on the Balance Sheet?
15. How does the owner of a business expect to pay its liabilities?
16. Name two forms in which the Balance Sheet may be prepared.
17. Which is considered the better of the two forms? State reasons for answer.
18. If the Sales account shows a debit of $1,500.00 and a credit of $6,000.00, what does this indicate?
19. If the net returns from sales are $4,565.50 and the expense of operating the business is $4,375.00, what does this indicate?
20. If the total assets are $7,682.50 and the total liabilities $6,552.90, what does this indicate?
21. If the total assets are $10,500.00 and the total liabilities $1,500.00, what does this indicate?
22. Would it be practicable for a department store to make a Balance Sheet and Statement of Profit and Loss at the close of each month? Why?
23. Why is it necessary for each business concern in the United States to have a Balance Sheet and a Statement of Profit and Loss prepared at least once each year?
24. What information can the owner obtain from his Balance Sheet which will be of assistance to him in securing credit from other business concerns?
25. Why is it that the difference between the total assets and total liabilities equals the net investment plus the net profit?

Chapter VIII

CLOSING THE LEDGER

The Purpose of this Chapter is to explain and illustrate the process of closing the ledger at the end of a fiscal period. It is customary to close the ledger at the end of a fiscal period in order that the profit or loss resulting from the operations of the business during the period may be credited or debited to the owner's account, and in order that the income and cost accounts may be in balance at the beginning of the next period. The illustrations are applicable to the business of W. A. Gordon in the Model Set, Chapter VI.

§ 53. **Closing the Ledger** is an accounting term applied to the process of transferring the net profit or net loss to the owner's Capital account at the close of a fiscal period. This process requires the closing of all income and cost accounts which appear on the Statement of Profit and Loss. As explained in § 34, the owner's interest in the business consists of the assets invested at the beginning of the business, subsequent investments, and the net profit resulting from the operations of the business, less withdrawals from the investment, and the net loss, if the business has been operated at a loss. The debits and credits to the owner's Capital account will show the investments and withdrawals, but will not show the profit or loss resulting from the operations of the business until the ledger has been closed. For this reason, it is customary for the bookkeeper or accountant to close all accounts shown on the Statement of Profit and Loss at the close of a fiscal period and to debit or credit the owner's Capital account with the loss or profit reported to the owner on the Statement of Profit and Loss.

§ 54. **Accounts Required in Closing the Ledger.** Two accounts in addition to those discussed in the preceding chapters are required in closing the ledger: one to show the value of the merchandise inventory and the other to show the operating cost, special losses, gross profit on sales, special profits, and net profit; the former account is usually given the title "Inventory" or "Merchandise Inventory," and the latter, "Profit and Loss." Other accounts may be required; these will be explained and illustrated as they are needed in connection with the discussion of the adjusting and closing entries.

INVENTORY ACCOUNT

§ 55. **The Purpose of this Account** is to show the value of the merchandise on hand at the close of the fiscal period as indicated by the merchandise inventory. It is necessary to show the value of the inventory in an account in the ledger because it is shown as one of the assets on the Balance Sheet.

Debit the Inventory Account:

¶ 1. At the close of each fiscal period, with the value of the merchandise inventory at the close of the period.

Credit the Inventory Account:

¶ 2. At the beginning or close of each fiscal period, with the value of the merchandise inventory at the close of the preceding fiscal period as indicated by the entry on the debit side.

¶ 3. *The Balance of this Account* shows the value of the merchandise inventory at the close of the fiscal period.

PROFIT AND LOSS ACCOUNT

§ 56. **The Purpose of this Account** is to show the operating cost, special losses, principal income, and special profits for the fiscal period as shown by the Statement of Profit and Loss. No transactions are recorded in this account, the debits and credits being formed by transferring to it the balances of the profit and loss accounts shown on the Statement of Profit and Loss. If desired, the balances of these accounts could be closed direct into the owner's Capital account, but it is considered the better practice to have one account in the ledger which summarizes the facts shown on the Statement of Profit and Loss. This account is opened only at the close of the fiscal period, and when the balances of all the profit and loss accounts have been transferred to it and its balance transferred to the owner's Capital account, it is ruled and remains in balance until the close of the next fiscal period.

Direct profits or losses that occur during the fiscal period should not be credited or debited to the Profit and Loss account, but to a special account, the name of which should indicate the nature of the profit or loss, as "Profit on Sales of Real Estate," "Loss on Stolen Typewriter," "Loss on Delivery Truck," etc.

Debit the Profit and Loss Account:

¶ 1. At the close of each fiscal period, with the balance of the Expense account or accounts.

¶ 2. At the close of each fiscal period, with the balance of each account which shows a loss.

Credit the Profit and Loss Account:

¶ 3. At the close of each fiscal period, with the gross profit on sales.

¶ 4. At the close of each fiscal period, with the balance of each account which shows a profit.

¶ 5. *The Balance of the Profit and Loss Account* shows the net profit or net loss for the fiscal period, which is the same as the "Net Profit" or "Net Loss" shown on the Statement of Profit and Loss. This balance is debited or credited to the owner's Capital account.

The student may wonder why the account is not named "Loss and Profit," or "Loss and Gain," because the losses are recorded on the debit side and the gains or profits on the credit side. The title "Profit and Loss" is not arbitrary, and "Loss and Gain" may be used if desired. However, the title "Profit and Loss" is preferred by accountants because the account is a summary of those accounts used in connection with the preparation of the Statement of Profit and Loss.

CLOSING ENTRIES

§ 57. **Entries to Close the Ledger.** Five or more entries are necessary to close the ledger as follows: (1) to record the merchandise inventory at the close of the fiscal period; (2) to close the Purchases account; (3) to close the Sales account; (4) to close the Expense account; (5) to close the Profit and Loss account. A separate entry is required to close each account which shows an income or a cost, hence the number of entries will depend on the number of accounts to be closed. The information for these entries is obtained from the Statement of Profit and Loss, hence this statement is used as a guide in closing the ledger.

The first entry may be regarded as an adjusting entry required to show in the ledger the value of an asset used in the preparation of the Balance Sheet, or as one of the entries necessary in the process of closing the ledger. (§ 46, ¶¶ 4 and 5.)

§ 58. **Methods of Closing the Ledger.** The five or more closing entries are of the same nature as entries for transactions which occur in the regular operations of the business in that each entry requires an account debited and an account credited, the values being the same. These entries may be made direct in the ledger accounts or in the general journal and posted to the ledger in the same manner as transactions. When entries are made in the general journal and posted

to the ledger, the process is known as the "journal entry method" of closing the ledger; when the adjusting entries are made direct in the ledger, the process of closing is referred to as the "direct method" of closing the ledger. Both methods of closing the ledger will be discussed and illustrated to emphasize the fact that the final results are the same no matter which method is used.

The student might conclude from the foregoing discussion that the direct method of closing is used when the transactions are recorded direct in the ledger, and the journal entry method of closing when the transactions are recorded in books of original entry and posted to the ledger. However, this is not true in practice, because many bookkeepers prefer the direct method of closing even though the transactions are recorded in books of original entry and posted. It is quite evident that the journal entry method is the better because it facilitates auditing by providing a record of the closing entries in a book of original entry.

§ 59. Journal Entry Method. When the closing entries are made in the journal, they are recorded in the same manner as those necessary to record transactions. All the entries are made under date of the last day of the fiscal period. The five journal entries required to close the ledger of W. A. Gordon (Model Set) on pages 70-73 are shown in the illustration on page 90. The posting of these closing entries is shown in the illustration on pages 91 and 92; pages 70 and 71 are not repeated because none of the accounts on these two pages are affected by the closing entries. An analysis of the closing entries is given on pages 94, 95 and 96.

§ 60. Direct Method of Closing. When the closing entries are made direct in the ledger and not in the journal, they are recorded in the same manner as transactions (§§ 19, 29 and 35), except it is customary to use red ink in the entry which balances an account. The ledger page is given in each entry for reference. The entries are made under date of the last day of the fiscal period. The process of closing the ledger of W. A. Gordon (Model Set) on pages 70–73 by the direct method is explained and illustrated in Appendix B.

The direct method of closing is illustrated in Appendix B, separate from the journal entry method in this chapter to avoid confusion. The student should compare the two methods because a knowledge of both is necessary to a thorough understanding of each. The final results are the same with either method, but preference is given to the journal entry method in this text because it is preferred and recommended by practicing accountants. The reason for this preference is that the entries in the journal facilitate auditing Before auditing a ledger which has been closed by the direct method, it is necessary for the auditor to prepare journal entries so that he may know that each entry has been posted.

§ 61. Balancing an Account. When it is desired to rule an account which does not balance and carry the balance down below the ruling on the same page or forward it to a new page, the process is referred to as balancing an account. This is effected by entering the balance on the smaller side under the date on which the account is balanced and ruling the account. It is customary to use red ink for the date, figures and the ruling, but its use is not arbitrary. The balance is brought down with black ink on the opposite side of the account below the ruling or under the title of the account on a new page. The method of balancing the Cash account is shown on page 70 and the proprietor's Capital account on page 91.

§ 62. A Post-Closing Trial Balance is a list of the open accounts in the ledger with the balance set opposite the name of each account, prepared after all the adjusting and closing entries have been made in the accounts. The facts shown on this Trial Balance are the same as those shown on the Balance Sheet and should be checked with it before the Balance Sheet is submitted to the owner for his approval. This Trial Balance is necessary in order that the bookkeeper may know that the accounts in the ledger agree with the facts shown on the Balance Sheet, and that the ledger is in balance before the transactions performed in the next fiscal period are recorded.

October 31, 19

31	4	Inventory	147715	
	4	Purchases		147715
		Mdse Inventory at the close of the fiscal period.		
31	4	Sales	163535	
	4	Purchases		163535
		To transfer the cost of sales from the Purchases account to the Sales account.		
31	4	Sales	71330	
	5	Profit and Loss		71330
		To transfer the gross profit on sales from the Sales account to the Profit and Loss account		
31	5	Profit and Loss	32740	
	4	Expense		32740
		To close the Expense account into the Profit and Loss account.		
31	5	Profit and Loss	38590	
	3	W. A. Gordon, Capital		38590
		To transfer the net profit from the Profit and Loss account to the Capital account.		

Illustration No. 43, Page 2 of the General Journal for Model Set.

EXPLANATION. This illustration shows the five entries (§ 57) to close the ledger for W. A. Gordon, Model Set, made in journal form (§ 59). The information is obtained from the Statement of Profit and Loss, Illustration No. 42. These entries are analyzed and further explained on pages 94, 95 and 96.

King & King, City

19				19					
Sept.	13	C3	100	Sept.	3		P1 ✓		136 95
	20	C3	136 95		29	10 days 174 75	P1 ✓		174 75
Oct.	9	C3	174 75	Oct.	20	30 "	P1		127 65
					28	30 " 269.02	P1		141 37½

Lake View Creamery, Dayton

19				19					
Oct.	7	C3	30	Sept.	17	20 days 30.00	P1 ✓		30
				Oct.	15	20 " 48.00	P1		48

Dick, McMillan & Co., Springfield

19				19					
Oct.	16	C5	381 78	Oct.	1	15 days	P1		381 78
					24	15 " 117.90	P1		117 90

Dawson Bros & Co., Lebanon

19									
Oct.	27	30 days 307.55	P1		307 55

Brown Bros., City

19					19				
Oct.	16	Brot forwd	✓	561 70	Oct.	16	Brot forwd 229.90	✓	893 60
	18		C5	98					
	20	Error	J1	10					
				569 70					

W. A. Gordon, Capital

19					19				
Oct.	1	C3	200		Sept.	1		C2	1000
						1	1300 00	J1 ✓	500
					Oct.	31	Profit & Loss	J2	385 90
			1885 90						1885 90
					Nov.	1	Present Capital	✓	1685 90

Illustration No. 44, Page 3 of the Ledger for Model Set.

EXPLANATION. This page is the same as page 72 except the Capital account has been credited with the net profit and is balanced as explained on page 93. Pages 70 and 71 are not repeated here because they are not affected by the closing entries.

Sales

19					19				
Sept.	19		J 1	910	Sept.	6		C 2	32
Oct.	6		C 3	750		13		C 2	40
	24		J 1	375		20		C 2	65
	31	Cost of Sales	J 2	163535		27		C 2	4450
	31	Profit on Sales	J 2	71364000		30	724.51	J 1	552111
					Oct.	4		C 2	8765
						11		C 2	10980
						18		C 4	12950
						27		C 4	13645
						31		C 4	8719
						31		J 2	1079800
			7364						7364

Inventory

19					
Oct.	31	Misc. Inv. 1/31	J 2	14771	5

Purchases

19					19				
Sept.	1	Inventory	J 1	500	Sept.	23		J 1	1760
	30	1779.50	P 1	1792100	Oct.	20		J 1	10260
Oct.	2	Freight & Drayage	C 3	275		31	Inventory	J 2	14771 5
			P 1	1340735		31	Cost of Sales	J 2	16353510
				31351 0					31351 0

Expense

19					19				
Sept.	4		C 3	25	Oct.	21	Stamps	C 4	50
	30	165.00	C 3	14065		27	"	J 1	6,00
Oct.	13		C 3	1850		31	Profit & Loss	J 2	32740
	17		C 5	5					
	31	327.40	C 5	14052850					
				32850					32850

Illustration No. 45, Page 4 of the Ledger for Model Set.

EXPLANATION. This page is the same as page 73 except the journal entries on page 90 have been posted and the accounts "in balance" have been footed and ruled. Pages 72 and 73 would appear the same as pages 91 and 92 if the closing entries had been posted to them.

Profit and Loss

19					19				
Oct.	31	Expense	f2	327 40	Oct.	31	Profit on Sales	f2	713 30
	31	W. A. Gordon, Cap.	f2	385 90					
				713 30					713 30

Illustration No. 46, Profit and Loss Account, Model Set

The above account would be opened on page 5 of the ledger for the Model Set, the first four pages being full as shown on pages 70, 71, 91 and 92. This account is the result of closing the Purchases, Sales and Expense accounts; the balance has been transferred to W. A. Gordon, Capital, as shown in the illustration at the bottom of page 91.

BALANCING THE CAPITAL ACCOUNT

If desired, the owner's Capital account may be ruled and his present capital (proprietary interest in the business) carried down under date of the beginning of the next fiscal period. If this plan is followed, the present capital is entered on the debit side with red ink, and the balance carried down on the credit side under date of the beginning of the next fiscal period as in the illustration at the bottom of page 91.

POST-CLOSING TRIAL BALANCE

W. A. Gordon
Post-Closing Trial Balance, October 31, 19

1	Cash	291 61	
1-2	Accounts Receivable	883 51	
3	Accounts Payable		966 37
3	W. A. Gordon, Capital		1685 90
4	Inventory	1477 15	
		2652 27	2652 27

Illustration No. 47, Post-Closing Trial Balance for Model Set

This Trial Balance is made from the ledger accounts on pages 70, 71, 91 and 92; the Accounts Receivable and Accounts Payable are each shown in one amount because these were not affected by the closing entries. The accounts are arranged in the same order as the accounts appear in the ledger. The facts on this Trial Balance are the same as those shown by the Balance Sheet. The post-closing Trial Balance proves that the ledger is in balance after the closing entries are posted.

Combined Journal Entry

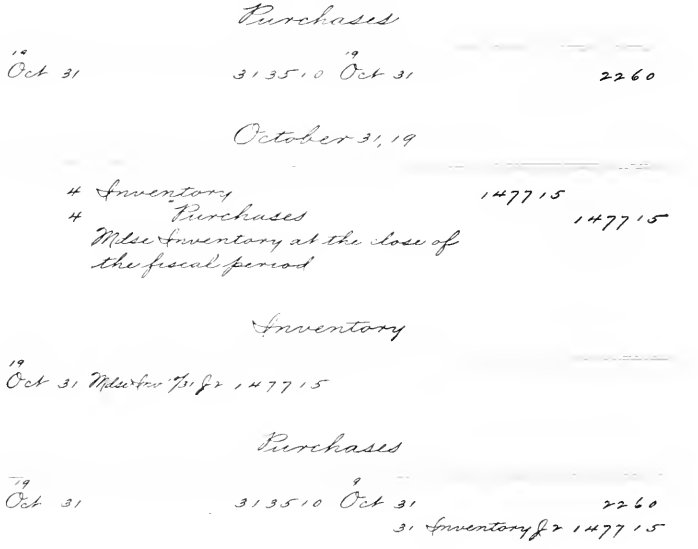
If desired, the accounts used in making the Statement of Profit and Loss may be closed with their balances by a combined journal entry. The journal entry at the right shows this method of closing the accounts which were closed by the five separate entries on page 90. This form of closing is not recommended by accountants because the Profit and Loss account is omitted. It is desirable to have in the ledger a summary of all the accounts showing a profit or loss such as that provided by the Profit and Loss account, because this information is very valuable for statistical purposes. The student will understand this better after he is more familiar with the accounting procedure developed later in the course.

	31		
	Inventory	1477 15	
	Sales	2348 05	
	Purchases		3112 50
	Expense		327 40
	W. A. Gordon, Capital		385 90

ANALYSIS OF CLOSING ENTRIES ON PAGE 90

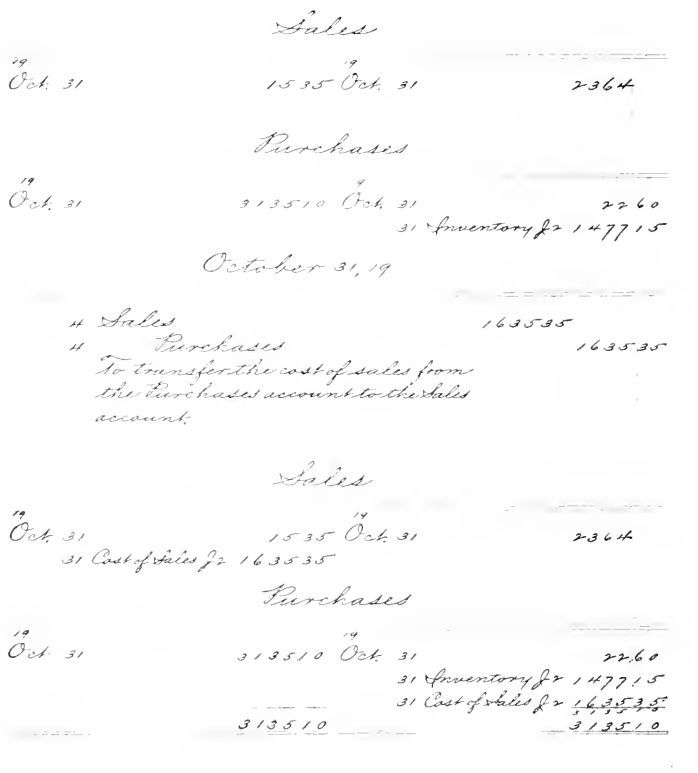
The First Entry is that required to record the merchandise inventory at the close of the fiscal period. This entry is necessary because the cost of sales is ascertained on the Statement of Profit and Loss by subtracting the inventory at the close of the fiscal period from the net purchases. The Inventory account is debited to record the asset; the Purchases account is credited for the inventory so that when it is posted, the subtraction will be indicated. It is customary to write "Mdse. Inv." in the explanation column of the Inventory account, and "Inventory" in the explanation column of the Purchases account.

The illustration at the right shows the Purchases account at the close of the fiscal period, the journal entry to record the inventory at the close of the period, and the Inventory and Purchases accounts as they appear after the journal entry has been posted.



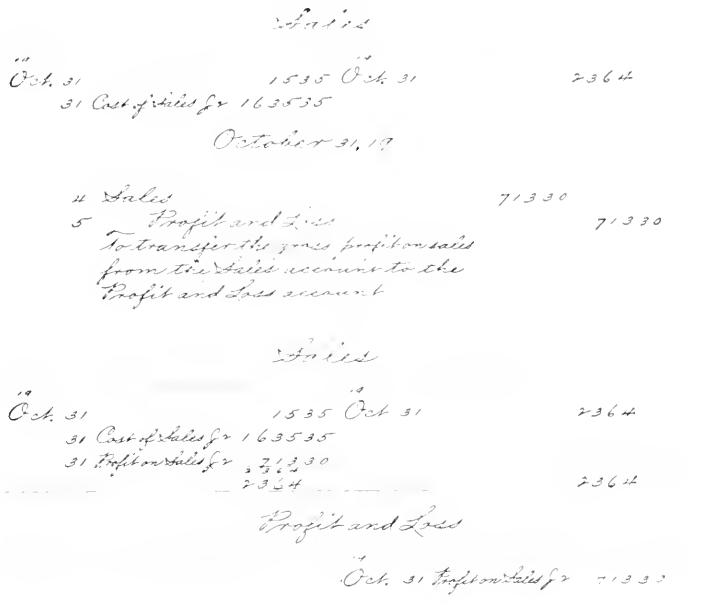
The Second Entry is that required to transfer the balance of the Purchases account to the Sales account. This entry is necessary because the profit on sales is ascertained on the Statement of Profit and Loss by subtracting the cost of merchandise sold from the net sales. The Sales account is debited for the cost of sales so that when it is posted, the subtraction will be indicated; Purchases is credited because this account shows the cost of sales. When this entry is posted, the Purchases account will balance and be ruled, and the balance of the Sales account will show the net profit on sales as shown by the Statement of Profit and Loss. It is customary to write "Cost of Sales" in the explanation column of each of these accounts.

The illustration at the right shows the Sales and Purchases accounts before the second entry has been posted, the journal entry to close the Purchases account into the Sales account, and the Sales and Purchases accounts after this journal entry has been posted. The balance of the Sales account now shows the net profit made by selling merchandise because the credit side shows sales and the debit side cost.



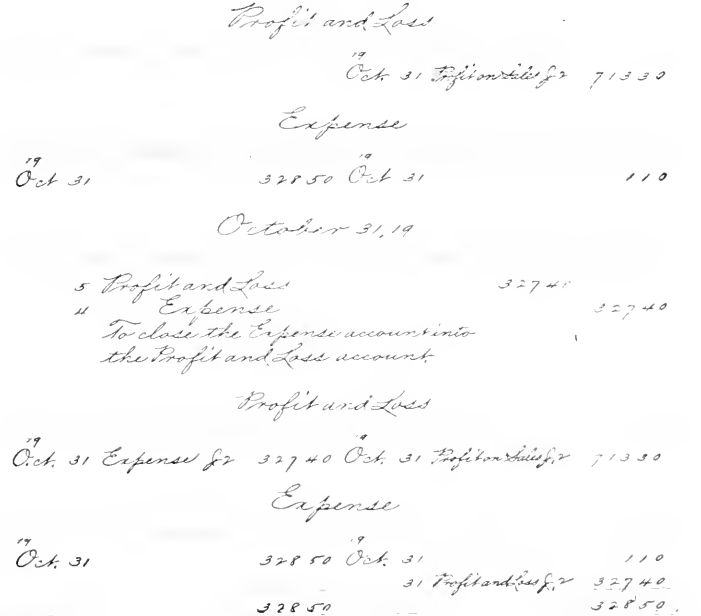
The Third Entry is that required to transfer the balance of the Sales account to the Profit and Loss account. This entry is necessary because it is customary to show in the ledger a summary of the facts shown by the Statement of Profit and Loss Sales is debited because this account shows the profit on sales; the Profit and Loss account is credited because this account is credited for all income. When this entry is posted, the Sales account will balance and be ruled, and the Profit and Loss account will show the profit on sales. It is customary to write "Profit on Sales" in the explanation column of each of these accounts.

The illustration at the right shows the Sales account before the third entry has been posted, the journal entry to close the Sales account into the Profit and Loss account, and the Sales and Profit and Loss accounts after this journal entry has been posted. The profits and losses could be closed direct into the proprietor's account instead of Profit and Loss as explained in § 56.


Sales
19 Oct. 31 1535 19 Oct. 31 2364
31 Cost of Sales for 163535
October 31, 19
11 Sales 71330
5 Profit and Loss 71330
To transfer the gross profit on sales from the Sales account to the Profit and Loss account
Sales
19 Oct. 31 1535 19 Oct. 31 2364
31 Cost of Sales for 163535
31 Profit on Sales for 71330
2364 2364
Profit and Loss
19 Oct. 31 Profit on Sales for 71330

The Fourth Entry is that required to transfer the balance of the Expense account to the Profit and Loss account. This entry is necessary because the net profit is ascertained on the Statement of Profit and Loss by subtracting the expense from the profit on sales. The Profit and Loss account is debited so that when it is posted, the subtraction will be indicated; the Expense account is credited because this account shows the expense for the period. When this entry is posted, the Expense account will balance and be ruled, and the balance of the Profit and Loss account will show the net profit. It is customary to write "Profit and Loss" in the explanation column of the Expense account, and "Expense" in the explanation column of the Profit and Loss account.

The illustration at the right shows the Profit and Loss and the Expense accounts before the fourth entry has been posted, the journal entry to close the Expense account into the Profit and Loss account, and the Profit and Loss and the Expense accounts after this entry has been posted.


Profit and Loss
19 Oct. 31 Profit on Sales for 71330
Expense
19 Oct. 31 32850 19 Oct. 31 110
October 31, 19
5 Profit and Loss 32740
11 Expense 32740
To close the Expense account into the Profit and Loss account
Profit and Loss
19 Oct. 31 Expense for 32740 19 Oct. 31 Profit on Sales for 71330
Expense
19 Oct. 31 32850 19 Oct. 31 110
31 Profit and Loss for 32740
32850 32850

The Fifth Entry is that required to transfer the balance of the Profit and Loss account to the proprietor's Capital account. This entry is necessary because the purpose of closing the ledger is to transfer the net profit to the proprietor's account. The Profit and Loss account is debited because this account shows the net profit; the proprietor's Capital account is credited because this profit is equivalent to an additional investment. When this entry is posted, the Profit and Loss account will balance and be ruled, and the proprietor's Capital account will show his present proprietorship as shown by the Balance Sheet. It is customary to write the name of the proprietor's Capital account in the explanation column of the Profit and Loss account, and "Profit and Loss" in the explanation column of the proprietor's account.

The illustration at the right shows the Profit and Loss account and the account with W. A. Gordon, Capital, before the fifth entry has been posted, the journal entry to close the Profit and Loss account, and the Profit and Loss and W. A. Gordon Capital accounts after this entry has been posted.

If desired, the proprietor's Capital account may be balanced and ruled as explained on page 93 and illustrated at the bottom of page 91; this plan is usually followed.

Profit and Loss

19				19		
Oct. 31	Expense		327 40	Oct. 31	Profit on Sales	713 30

W. A. Gordon, Capital

19			19	
Oct. 31		200	Oct. 31	1500

October 31, 19

5	Profit and Loss	385 90	
3	W. A. Gordon, Capital		385 90
	To transfer the net profit from the Profit and Loss account to the Capital account.		

Profit and Loss

19				19		
Oct. 31	Expense		327 40	Oct. 31	Profit on Sales	713 30
31	W. A. G., Capital		385 90			
			713 30			713 30

W. A. Gordon, Capital

19			19		
Oct. 31		200	Oct. 31		1500
			31	Profit and Loss	385 90

Closing the Inventory Account

If desired, the inventory of merchandise at the close of the fiscal period may be transferred to the Purchases account at the beginning of the next fiscal period. If it is not transferred to the Purchases account at the beginning of the period, then it will be necessary to transfer it to this account at the close of the period because the cost of merchandise on hand at the beginning of the period must be added to the cost of merchandise purchased during the period to ascertain the total cost of all merchandise. The form of entry for transferring the merchandise inventory to the Purchases account is the same whether it is made at the beginning or the close of the period. The entry necessary to transfer the inventory to the Purchases account for W. A. Gordon, Model Set, is shown at the right. The date, November 1, at the top, indicates that this entry was made at the beginning of the next fiscal period. After this is posted, the Inventory account will be in balance, and the value of the inventory will appear on the debit side of the Purchases account under date of November 1; it is customary to write "Inventory" in the explanation column of the ledger.

Nov. 1, 192

Purchases	*1477 15*	
Inventory		*1477 15*
To close the Inventory account at beginning of fiscal period		

Exercise No. 37, Closing the Ledger, Journal Entry Method.

Prepare a Balance Sheet and Statement of Profit and Loss, each in report form, from the Trial Balance of C. U. Steele, resulting from recording the trans-

actions in Exercises Nos. 17, 20 and 23 (merchandise inventory, $6,127.50). Close the ledger by the journal entry method and take a post-closing Trial Balance.

The student was instructed to retain the Trial Balance and ledger sheets at the conclusion of Exercise No. 23.

Exercise No. 38, Closing the Ledger, Direct Method.

Prepare a Balance Sheet in account form and a Statement of Profit and Loss in report form from the Trial Balance of Donald D. Sells, resulting from recording the transactions in Exercise No. 24 (merchandise inventory, $762.78). Close the ledger by the direct method, and take a post-closing Trial Balance.

The student was instructed to retain the Trial Balance and ledger at the conclusion of Exercise No. 24.

Exercise No. 39, Closing the Ledger, Journal Entry Method.

Prepare a Balance Sheet in account form and a Statement of Profit and Loss in report form from the Trial Balance of H. A. Popp, resulting from recording the transactions in Exercise No. 25 (merchandise inventory, $396.54). Close the ledger by the journal entry method, and take a post-closing Trial Balance.

The student was instructed to retain the Trial Balance and ledger at the conclusion of Exercise No. 25.

Exercise No. 40, Closing the Ledger, Combined Journal Entry.

Prepare a Balance Sheet and Statement of Profit and Loss, each in report form, from the Trial Balance of J. N. Fulton, resulting from recording the transactions in Exercise No. 26. Close the ledger by a combined journal entry as explained at the bottom of page 93, and take a post-closing Trial Balance.

The student was instructed to retain the Trial Balance and ledger at the conclusion of Exercise No. 26.

Summary of Chapters VI, VII and VIII. The Model Set in Chapter VI illustrates the method of recording transactions, posting and taking a Trial Balance. Illustrations are provided so that the student may see the connection between the transactions and the Trial Balance at the end of the month.

The Balance Sheet is a report showing the assets, liabilities and proprietorship. The Statement of Profit and Loss is a report showing a list of the income, costs and net profit. The proprietorship as shown by the Balance Sheet less the net profit or plus the net loss as shown by the Statement of Profit and Loss equals the proprietorship at the beginning of the fiscal period.

"Closing the ledger" is a term used to describe the method of transferring the profit or loss to the owner's Capital account. Certain entries are required to make this transfer. These entries may be made direct in the ledger in the same manner as transactions may be recorded direct in the ledger, or they may be recorded in the general journal and posted to the ledger. The accounts to be closed are those used in connection with the Statement of Profit and Loss; they include cost and income accounts. The Profit and Loss account is used in the process of closing; when all accounts have been closed, the balance of the Profit and Loss account is transferred to the owner's Capital account. The post-closing Trial Balance proves that the equality of debits and credits has been maintained throughout the closing process.

QUESTIONS

1. Explain the meaning of the term "closing the ledger."
2. Is it necessary to close the ledger? Why?
3. When is the ledger closed?
4. Name the two methods of closing the ledger.

*

5. What is the purpose of the Profit and Loss account?
6. Why is the account not named "Loss and Gain" since losses appear on the debit side and gains on the credit side?
7. What is the purpose of the post-closing Trial Balance?
8. Why are accounts ruled when the two sides are equal? How?
9. Why is it necessary to open an account with Inventory at the close of the fiscal period?
10. Name the five entries usually required in connection with closing the ledger.
11. If the business had made a profit other than that shown by the Purchases, Sales and Inventory accounts, would a separate entry be required to close this profit into the Profit and Loss account? If the profit is credited to a Profit on Sales of Real Estate account, name the accounts debited and credited in the closing entry.
12. A business owned a horse which it used in connection with the delivery of its merchandise; this horse died and the loss was debited to a "Loss on Dead Horse" account. Would a special entry be required to close the balance of this account into the Profit and Loss account? Name the accounts debited and credited in this closing entry.
13. After the ledger is closed, what accounts remain open?
14. What relation does the credit to the owner's Capital account after it is closed have to the assets and liabilities shown by the accounts that remain open after the ledger is closed?
15. Describe the process of closing the ledger by the direct method.
16. Describe the process of closing the ledger by the journal entry method.
17. Which method of closing the ledger is considered the better? Why?
18. Are the debits and credits equal in each closing entry? Why is this necessary?
19. If an account is closed with an incorrect amount, what effect will this have on the Trial Balance of the first month of the next fiscal period?
20. Mention an error in the closing of the ledger which would effect future Trial Balances.
21. Why is the Cash account balanced at the close of the fiscal period?
22. Describe the entry necessary to close the balance of the Inventory account into the Purchases account. When should this entry be made?
23. Is it necessary to balance each customer's account and each creditor's account in the ledger at the close of the fiscal period? Give reasons for your answer.
24. Is it necessary to balance the Capital account after the net profit or net loss for the period has been credited or debited to it?
25. Why is red ink used for closing the Capital account even though the other accounts may be closed by journal entries?

Chapter IX

BUSINESS FORMS AND VOUCHERS

The Purpose of this and the two Succeeding Chapters is to explain and illustrate those business forms used most frequently in connection with the performance of business transactions. A printed statement of the business transaction which has been completed is sufficient for determining the debits and credits in connection with the transaction, but a knowledge of business forms is necessary because they represent transactions to the bookkeeper.

§ 63. **A Business Form or Voucher** is a written statement concerning a business transaction to be performed or one that has been completed. The two terms are used with the same meaning, but the term "voucher" usually refers to a business form which is an evidence of a cash payment. Business forms prepared for a specific purpose are usually printed with blank space for the information desired in connection with a transaction. These forms are referred to by name, as purchase order, invoice, purchases invoice, sales invoice, bill, sales ticket, receipt, deposit ticket, check, note, sight draft, time draft, trade acceptance, etc. The various business forms will be explained and illustrated as they are needed in the recording of transactions in the practice sets. In this chapter, those which relate to the purchases and sales of merchandise are explained and illustrated.

§ 64. **Use of Business Forms.** A business form serves two purposes: (1) it provides written information in regard to a business transaction, thus avoiding the misunderstanding which might result from a verbal contract; (2) it provides information for the basis of the entry made by the bookkeeper when he records the transaction. From the standpoint of the bookkeeper, business forms are very important because they not only provide the information which he needs in recording transactions, but also support his records when these are verified by the auditor.

In the preceding chapters, the transactions have been recorded from a printed statement of the facts; in practice, the bookkeeper would make his record from business forms because no printed record of the transactions would be available. The usual process is (a) transactions performed as evidenced by business forms; (b) a record of these transactions in books of original entry; (c) the accounts in the ledger resulting from posting; (d) the Trial Balance at the end of the month to prove the equality of the debits and credits; (e) a report of the assets and liabilities, and profits and losses to the owner at the close of the fiscal period.

§ 65. **A Purchase Order,** or "order" as it is sometimes termed, is the written authority from the purchaser, authorizing the seller to make shipment of the merchandise described therein. The printed form provided for a purchase order should be made in duplicate, the original and duplicate printed on different-colored paper, and each original and duplicate numbered the same, the numbers being arranged consecutively. When the order is made, the same facts are shown on the duplicate as on the original and the duplicate is filed for reference. When this plan is followed, the purchaser has available all the information given in each order and can check the list of the merchandise received with this to determine whether the order has been filled as directed.

Merchandise may be ordered by letter, by telegraph, or by telephone; when the order is placed by letter, a description of the merchandise desired is given on the order blank enclosed with the letter, and not in the letter; when the merchandise is ordered by telegraph or by telephone, an order, accompanied by the copy of the telegram or containing the date of the telephone message is mailed to the seller confirming the telegram or the telephone call. Unfilled orders should be filed numerically, and, when they have been filled, they should be placed in another file in the same order. Illustration No. 48 shows one form of purchase order; others will be discussed and illustrated later.

MARK ORDER NO
ON ALL INVOICES

SOUTH-WESTERN PUBLISHING CO.
Publishers of Commercial Text Books
309 WEST THIRD ST., CINCINNATI, OHIO

Order No.

Yawman & Erbe Manufacturing Co.
Rochester, N. Y.

Cincinnati April 21 19 21
Terms 30 days net

Ship via Freight - prepaid

MARK ORDER NO. ON OUTSIDE OF ALL PACKAGES AND CASES

QUANTITY	DESCRIPTION	PRICE	PER
2	#106 Bases)	10.00	ea.
4	#59 Sections)	30.00	"
2	#60 " (110 finish	31.00	"
2	#22 " (	33.50	"

South-Western Publishing Co.

Deliver no goods without a written Order on this form.

By L. M. W.

Illustration No. 48, Purchase Order.

EXPLANATION. This illustration shows a purchase order issued by the South-Western Publishing Co., Cincinnati, O., for filing devices manufactured by the Yawman & Erbe Mfg. Co., Rochester, N. Y. The order is issued in triplicate; the original is mailed to the Yawman & Erbe Mfg. Co., one copy is filed in the office, and the other is sent to the receiving department. The instructions in the upper right hand corner are for information in checking the invoice; the instructions in regard to marking the cases are for the receiving department.

§ 66. **An Invoice** is a written list of merchandise purchased or sold. The purchaser usually refers to the invoice he receives as a "purchase invoice," and the seller to one which he issues as a "sales invoice." If the printed form on which the invoice is prepared is made in duplicate, the seller can, by the use of carbon paper, retain a copy of the list of items sold each customer; the method of doing this will be explained later. An invoice is authorized by a purchase order and should contain all the information given in the order; this includes the date and number of the purchase order, method of making shipment, detailed description of the merchandise shipped, prices and extensions of each item, and the total. In addition to this information, the invoice should show the date the merchandise was shipped, which should be the date of the invoice; the terms which the seller allows; the name and address of the seller; and any other information which the seller may wish to include. If all the merchandise mentioned in the purchase order is not shipped, an explanation of this omission should be given on the invoice, because the purchaser, in checking the information on the invoice with his order, will want to know the reason it has not been filled as specified. Illustrations Nos. 49 and 50 show two forms of invoices; other forms will be explained and illustrated later.

Invoice—

YAWMAN AND ERBE MFG. CO.

Wood and Steel Filing Devices

Office Systems and Equipment

MAIN OFFICE AND FACTORIES, ROCHESTER, N. Y.

Sold To
South Western Publishing Co.
309 West Third St.
Cincinnati, Ohio.

Date 5/24/21.
Your Order No. 3983
Rochester No. 234873
Branch No.
Shipped Via N Y C
Territory 66

TERMS:—Thirty Days Net—Payable in New York Exchange—Pay No Money to Representatives.

Quantity	Description	Price	Amount	Total
2✓	106 Bases	10 00✓ ea	20 00✓	
4✓	59 Sections	30 00✓ "	120 00✓	
2✓	60 "	31 00✓ "	62 00✓	
2✓	22 "	33 50✓ "	67 00✓	
				$369 00✓

Illustration No. 49, Purchase Invoice.

EXPLANATION. This invoice is in acknowledgment of the purchase order, Illustration No. 48. The order has been filled complete. Space is provided on the invoice for information relative to the date, the buyer's order number, the seller's number, the branch number, method of shipment, and territory. The "66" after "Territory" indicates that there are a number of territories and that the merchandise mentioned in this invoice was shipped into territory No. 66. The check marks indicate that the merchandise has been received as ordered, that the prices agree with the order, and that the extensions and the total have been verified.

W. H. GOODWIN

DEALER IN

Fancy Groceries, Provisions and Country Produce.

Cincinnati, Jan 4 19

Sold to A. R Jennings

Terms account 105 Main St, City.

	Quantity	Items	Price	Dollars	Cts.	Total	
	3	bxs George Washington Coffee	.75	2	25		
	1	bbl White Lily Flour	10.00	10	00		
	1	bag Mich. Potatoes (100 lbs)	2.50	2	50		
	1	doz Oranges	.50		50	15	25

Illustration No. 50, Sales Invoice.

EXPLANATION. The information on this sales invoice is practically the same as that on the purchase invoice except it is rendered by a retail merchant and he does not need the information shown on the purchase invoice.

§ 67. **A Sales Ticket** is a form of sales invoice used by some retail merchants. Sales tickets are usually printed in duplicate and bound in a book. Each clerk is provided with a book, and, when he makes a sale, either on account or for cash, he makes a list of the merchandise sold on the sales ticket. By the use of carbon paper, the two copies can be made at one time; one copy is sent to the office for the information of the bookkeeper and the other to the wrapping department to be wrapped with the merchandise sold; additional copies may be made at the same time if they are needed in connection with the accounting records. There are many methods of arranging sales tickets, but no attempt will be made here to discuss all of these. The method described will enable the student to understand the meaning and purpose of the sales ticket and its use in connection with the sales invoice. Illustration No. 51 shows one form of sales ticket. The student is advised to inquire from local merchants for other forms and their use in the sales, packing, and accounting departments.

EXPLANATION. The information on this sales ticket shows the date, the name of the one to whom the sale was made, his address, the number of the sale, the clerk, the items sold, amount of each, and total amount. The purchaser receives a copy of this with the merchandise so that he may know that the proper merchandise has been delivered.

SALES TICKET

W. H. GOODWIN

Date Jan 14 19

Sold to A. R. Jennings

Address 105 Main St. City

Sale No. 1 Sold by L. E. Cole

No.	ARTICLE	PRICE	AMOUNT
3	lbs. G. W. Coffee	.75	2 25
1	bbl. W. L. Flour	10.00	10 00
1	bag Mich. Potatoes	2.50	2 50
1	doz Oranges	.50	50
			15 25

Illustration No. 51, Sales Ticket.

§ 68. **A Bill** is a business form given as evidence of service rendered. The terms "bill" and "invoice" are sometimes used interchangeably, but the general understanding is that an invoice is a list of merchandise or material purchased

LAST DAY OF PAYMENT OCTOBER 10th

CINCINNATI, O. OCTOBER 1, 1921

THE CINCINNATI & SUBURBAN BELL TELEPHONE CO.

Telephone Building, 225 E. Fourth Street, Cincinnati, O.

See back of bill for rules and regulations regarding the billing and collection of accounts

JAS. W. BAKER
DELAWARE & KASOTA,
AVON., CINTI., O.

A3874

EXCHANGE SERVICE AS PER CONTRACT FOR OCTOBER, 1921	4.50
ADDITIONAL LOCAL MESSAGES TO SEPTEMBER 30 1921	
TOLL SERVICE	1.40
BALANCE DUE ON BILL PREVIOUSLY RENDERED	6.90

Office closed on Legal Holidays and at 1 P. M. on Saturdays during June, July, Aug. and Sept.

CASHIER'S STUB

PLEASE RETURN THIS STUB WITH YOUR MAIL REMITTANCE OR PLACE YOUR TELEPHONE NUMBER ON CHECK

JAS. W. BAKER
DELAWARE & KASOTA,
AVON., CINTI., O.

A3874

OCTOBER, 1921	4.50
TOTAL	6.90

Illustration No. 52, A Bill.

EXPLANATION. This bill is rendered for telephone service as stated therein. In addition to regular service, there is a charge for toll or long-distance calls; this charge is usually supported by a separate bill giving details. The notice in the upper left-hand corner is for the convenience of the bookkeeper of the telephone company so that, when a remittance is received, he may know whether the subscriber desires the bill to be receipted and returned.

or sold, and a bill is a statement of service rendered. Bills are rendered by attorneys, physicians, gas, electric, and telephone companies, and other individuals or concerns which render service for which payment is to be made after the service is rendered. Illustration No. 52 shows one form of bill. The arrangement is usually the same as that of an invoice, but this depends largely on the purpose for which the bill is rendered.

§ 69. **A Receipt** is a written acknowledgment from the receiver to the giver, of money or other property received in payment for some form of indebtedness. Receipts may be the result of transactions in connection with the purchase or sale of merchandise or transactions in which service has been rendered. A receipt may be written on a receipt form as in Illustration No. 53; it may be a

No. 1
Date Jan. 9, 191
To A R Jennings
For Account
Amount $ 10 23

No. 1 January 9, 191
Received of A R Jennings
Ten ——— 00/100 Dollars
On account
$ 10 23 W H Goodwin
By Student

Illustration No. 53, Receipt Book with Stub.

EXPLANATION. The illustration shows the receipt book and stub. The information on the stub is arranged in the same order as it is on the receipt for the convenience of the bookkeeper. The purpose of a receipt should always be stated on the stub for the information of the bookkeeper when he records the transaction (§ 27, ¶ 5), and on the receipt for the information of the holder.

Form 343. 1000-10-18

THE PHILIP CAREY COMPANY

LOCKLAND, CINCINNATI, OHIO. DEC. 31, 192

ORDER NO.	REQ. NO	SHIPPED FROM
CAR NO	FREIGHT	INVOICE NO.
F. O. B. DEL'D	VIA OUR TRUCK	SALESMAN

To H. C. HAZEN CONTRACTING CO.
2070 READING ROAD,
CINCINNATI, O.

WORKS:
LOCKLAND, OHIO
PLYMOUTH MEETING, PA.

ALL REMITTANCES MUST BE MADE PAYABLE TO ORDER OF THE COMPANY

Terms, Cash. Subject to sight draft in 30 days without further notice. Interest charged on past DUE ACCOUNTS.

3-PLY GRAY WALLBOARD IN BULD.	35.00 M ✓	
105 ✓ SHEETS 48" X 6' 2520 SQ. FT.		88.20 ✓

Illustration No. 54, Receipted Invoice.

EXPLANATION. The blue stamp indicates payment. When an invoice is receipted this is sufficient evidence of payment, hence a receipt in receipt form is not necessary.

receipted invoice or bill as in Illustrations Nos. 54 and 55; or it may be prepared in any form which suits the convenience of the giver. Each business concern which issues receipts should have these bound in a book with stubs as in Illustration No. 53, as this provides a permanent record of all receipts issued. When issuing a receipt similar to the illustration, the bookkeeper should always fill out the stub first because this is his record of the receipt.

SEPT. 10, 1921		SEPT. 10, 1921
	3 J.W.BAKER 3261 DELAWARE AVE.	JWB 172-21
TO THE UNION GAS AND ELECTRIC CO. DR. S. W. COR FOURTH AND PLUM STS., CINCINNATI, O. *For Natural Gas Consumed:* 2.40		3-
SEP 1 8870 00 AUG 1 8810 00 Amount Consumed 60 00 Cu. Ft. At the rate of 40c per M cubic feet, subject to discount of 5c per M, if paid on or before Last Day of Discount. Minimum Bill 35c net per month.	.30 2.10	2.10

Illustration No. 55, Receipted Bill.

EXPLANATION. The illustration shows a receipted bill from the gas company. The cashier of the gas company would remove the right-hand end at the line and retain this for his record. Both ends are illustrated to show that the stub may be attached to the receipt and not bound in a book.

§ 70. Filing Business Forms and Vouchers. All business forms and vouchers should be properly filed because they are evidence of transactions either completed or to be completed, and, unless properly filed, might not be available when needed. The bookkeeper should pay particular attention to the filing of business forms and vouchers which support his records so that he may have satisfactory evidence of their correctness. No attempt will be made here to discuss the method of filing business forms and vouchers, the purpose of the discussion being to impress on the student of bookkeeping the importance of filing those business forms and vouchers which support the bookkeeping records.

Exercise No. 41, Sales Tickets.

Prepare sales tickets for the sales made July 5, 8, 13, 16, 19, 22, and 26 in Exercise No. 14 on page 40. You may use the sales tickets of a local grocer, blank sales tickets, or forms ruled similar to Illustration No. 51.

Exercise No. 42, Sales Invoices.

Prepare sales invoices for the ten sales in Exercise No. 19, page 49. You may use invoices of a local grocer, blank invoices for sale by stationery stores, or forms ruled similar to Illustration No. 50.

Exercise No. 43, Purchase Order, Sales Invoice, and Receipt.

As purchasing agent for the Johnson Paint Co., Chicago, place an order, under date of May 16, with the Globe-Wernicke Co., Cincinnati, manufacturers of office furniture, for the following: 3 No. 503 Filing Cases at $12.00; 6 No. 67 Sections at $32.00; 3 No. 69 Sections at $35 00; 12 No. 37 Sections at $36.25. Terms, net 30 days; shipment to be made by Pennsylvania freight.

As bill clerk for the Globe-Wernicke Co., render an invoice for this material under date of May 19.

As receiving cashier for the Globe-Wernicke Co., prepare a receipt for the remittance received from the Johnson Paint Co. in payment for this invoice.

If you can obtain an order blank and an invoice from some local business concerns, these may be used instead of the names given. If you do not have blank forms, rule writing paper similar to Illustrations Nos. 48, 49, and 53.

QUESTIONS

1. What business form supports the record of each transaction in the purchases journal?
2. What business form supports the record of each transaction in the sales journal?
3. Explain the check marks in Illustration No. 49.
4. Explain the meaning of the words "30 days net" after "Terms" in Illustration No. 48.
5. Explain the meaning of the terms "Date," "Your Order No.," "Rochester No.," "Branch No.," "Shipped via," and "Territory," and the information given on a line with these in Illustration No. 49.
6. What is the purpose of indicating the territory number?
7. Explain "Mark order number on outside of all packages and cases" in Illustration No. 48.
8. Explain "Deliver no goods without a written order on this form" in Illustration No. 48.
9. When is the due date of the invoice in Illustration No. 49?
10. Why should a purchase order be made in duplicate?
11. Why should duplicate purchase orders be filed?
12. Can you suggest a method of filing duplicate orders so that the information will be readily available when needed?
13. Why should a sales invoice be made in duplicate?
14. Could the duplicate sales invoices be used as a sales journal?
15. Suggest a means of filing the duplicate sales invoices if they are to be used as a sales journal.
16. Distinguish between a purchases invoice and a sales invoice.
17. Robert Crouch made a number of purchases on account from a local grocer during the month of June. July 1 he received a written statement from the merchant, showing that he owed the merchant $28.60. How may Mr. Crouch know that this amount is correct without asking the merchant for additional information?
18. If a merchant sends a sales ticket with each sale on account, is it necessary for him to render a sales invoice?
19. If you purchase a pair of shoes from a local merchant and wish to return them, what evidence will he require in addition to the shoes? Why?

20. Could the sales tickets be used by the merchant as the account with a customer?
21. Distinguish between a bill and an invoice.
22. If a merchant has a purchase invoice receipted when he pays it, is a receipt in receipt form necessary?
23. If a receipt for $21.50 is issued to a customer for this amount of cash received from him on account, and the entry on the stub shows only $21.00, how will the bookkeeper detect the error?
24. If a receipt is issued and the bookkeeper fails to record it on the stub, state two ways by which he may ascertain the amount of the receipt.
25. If the bookkeeper issues receipts for all money received, what business forms support his record of the transactions on the receipts side of the cash book?

Chapter X

BUSINESS FORMS AND VOUCHERS—Continued

§ **71. A Bank** is a business organized for the purpose of making a profit through dealing in money and securities. The capital investment, together with the money deposited by customers, is loaned to those engaged in other business enterprises. The principal income is the interest earned by these loans. Banks are of great value to the community in which they are located because they provide a place for the safe-keeping of money and securities, and make possible the "deposit and check" method of making payments, thus eliminating, to a great extent, the use of money as a medium of exchange.

§ **72. Opening an Account with the Bank.** An account is opened with a bank by depositing currency or cash items; the receiving teller will not accept the first deposit from a depositor until it has been approved by the cashier or president of the bank. It is necessary for the officials of the bank to become acquainted with each depositor so as to avoid the possibility of the use of the bank account for a fraudulent purpose. The receiving teller gives the depositor a receipt for the amount of his deposit; this receipt is in the form of an entry in the pass book (§ 75), showing the date of the deposit and the amount. The depositor is provided with a book of blank checks (§ 76) for his use in withdrawing the money deposited; these blank checks are necessary because no money can be withdrawn from the bank except by check. The depositor is required to sign his name on a signature card that the bank may verify his signature on the checks which he writes.

EXPLANATION. The illustration indicates that T. L. Staples has opened an account with the Merchants National Bank and that his checks will be signed as indicated by his signature on the card. His address, name of the person by whom identified, telephone number, and date of opening the account are given for future reference. The card is punched to fit a filing device in which it will be filed alphabetically.

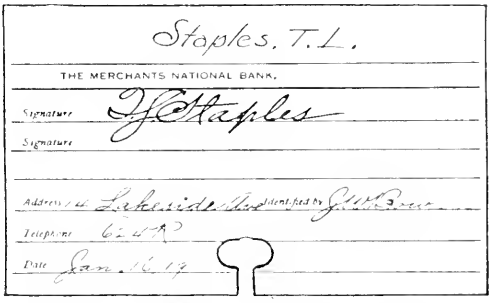

Staples, T. L.
THE MERCHANTS NATIONAL BANK.
Signature T. L. Staples
Signature
Address 14 Lakeside Ave Identified by G. W. Bow
Telephone 624 R
Date Jan. 16 19

Illustration No. 56, Signature Card.

§ **73. A Deposit Ticket** is a printed form supplied the depositors by the bank, on which to list the currency or cash items which he wishes to deposit. Space is provided for the date, name and address of the depositor, the various kinds of currency and cash items deposited, and the total amount of the deposit. Illustration No. 57 shows two deposit tickets, one on which the depositor has listed currency only, and the other on which he has listed currency and cash items.

§ **74. Method of Making a Deposit.** The depositor should consult with the receiving teller in regard to the preparation of his deposit ticket that he may know the teller's desires in this matter and thus prepare his deposit to suit the convenience of the clerks in the bank. Currency and cash items should be listed

ALWAYS BRING YOUR PASS BOOK.

Merchants National Bank

Deposited by

W. H. Goodwin

By Student

Feb. 1 191

LIST EACH CHECK SINGLY.	Doll's.	Cts.
Currency	1500	
Silver		
Checks		
"		
"		
"		
"		
"		
"		
Total	1500	

ALWAYS BRING YOUR PASS BOOK.

Merchants National Bank

Deposited by

W. H. Goodwin

By Student

Feb. 3 191

LIST EACH CHECK SINGLY.	Doll's.	Cts.
Currency	125	00
Silver	13	50
Checks City National	132	65
" Chicago	118	60
" Denver	88	25
" Merchants Natl	100	00
" Third National	55	16
" New York	421	65
" Merchants Bank	19	85
"		
Total	1074	66

Illustration No. 57, Deposit Tickets.

EXPLANATION. The deposit ticket at the left shows a deposit of currency only, and that at the right, currency, silver, and checks. "City National" at the left of the first check listed indicates that the check is payable by the City National Bank and that this is located in the same city as the Merchants National Bank; this statement also applies to the fourth, fifth, and seventh checks listed. "Chicago" written at the left of the second check listed indicates that this check is payable on a bank in Chicago; this same statement applies to the third and sixth checks. Some banks do not require this information while others require information in another form. It is suggested in § 74 that the depositor learn the bank's wishes in regard to the listing of checks.

as instructed by the teller. The receiving teller has many deposits to enter each day and will appreciate the cooperation of the depositor in complying with his suggestions. The depositor should see that the date, his name, and the total of the deposit appear on the deposit ticket, also that the currency and cash items are arranged in the order listed. The depositor should retain a copy of the items deposited, either by making a duplicate deposit ticket or by listing them on the back of the stub from which the last check was removed.

§ 75. **The Pass Book** is a small bound book ruled with columns for the date, nature of the entry (deposit, discount, or collection), and the amount. As explained in § 74, the receiving teller enters the date and amount of each deposit in this book, this being the depositor's receipt for the deposit. The depositor should always present the pass book with the deposit so that the teller can give him a receipt for it; in case he should forget to bring the pass book, the teller will give him a receipt on a duplicate deposit ticket, which should be retained until the next deposit is made and the amount entered in the pass book at that time. Illustration No. 59 (left side) shows deposits entered in a pass book; further reference is given to this illustration in § 79.

§ 76. A Check is a written order by a depositor on his bank, designating to whom he wishes the bank to pay a part or all of the money he has on deposit. It is customary for the bank to provide its depositors with blank checks for the same reason that blank deposit tickets are provided. Checks supplied depositors by a bank are usually bound in book form, each check having attached to it a stub for the depositor's record. Illustration No. 58 shows a check book with two checks to a page and stubs attached, with perforated lines for detaching.

A check is not money, but, since it is used in the place of money, it is accepted as such in business. Custom has established the term "cash" as one which includes money and checks (§ 15). The use of checks for paying obligations is more satisfactory than the use of money because it provides a receipt and avoids errors in making change, and losses through theft.

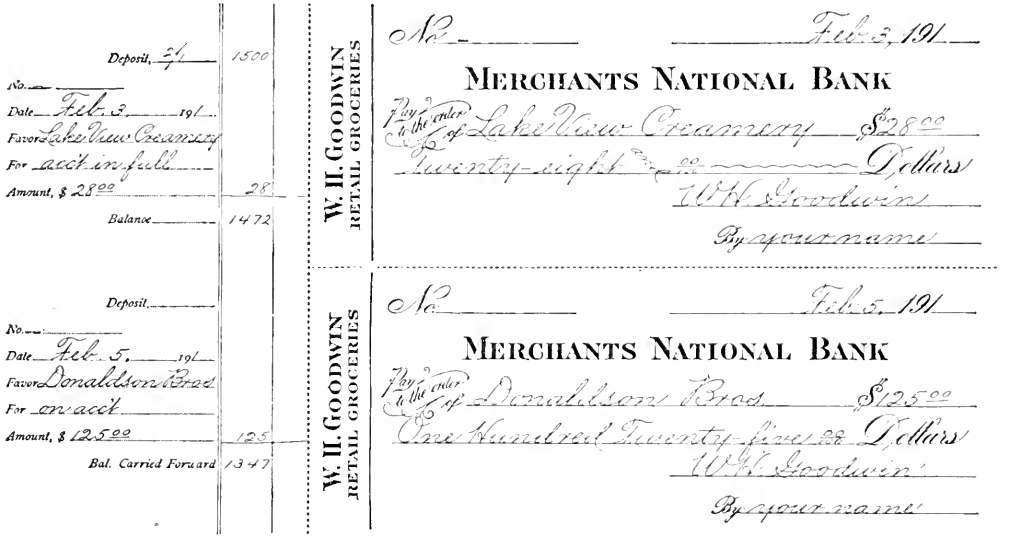


Illustration No. 58, Check Book.

EXPLANATION. The information on the stub is arranged in the same order as that on the check for the convenience of the depositor. The information after "For" is needed by the bookkeeper in recording the transaction (§ 28, ¶ 5). The ruled column at the right of the stub shows the depositor's account with the bank as explained in § 78. The name of the depositor at the left indicates that he has had the checks prepared for his individual use. The dotted lines show perforations for removing each check.

§ 77. Instructions for Writing Checks. The check book provided by the bank contains printed forms for use in writing checks, each of which is attached to a stub containing space for all the information written in the check. The stub is for the depositor's record of the check, hence the information to be written in the check should be written on the stub first. The information written on the stub includes the number, the date of issue, the person or business concern to whom the check is written, the reason for writing, the amount, and, if desired, the name of the account to be debited in the cash book. Each check and stub is numbered the same and consecutively, beginning with "1"; these should be numbered at the time the check book is received from the bank.

The information on the check is written in the following order: (1) the date, (2) the name of the person or business concern to whom the check is to be paid, (3) the amount in writing and in figures, and (4) the signature of the depositor, which should be the same as that on the signature card. If desired, the reason for writing may be stated on the check as well as on the stub. The information on the stub and on the check should be arranged in the same order so that the

check can be written from the information given on the stub. Illustration No. 58 shows a check book with two checks to the page and the two stubs and checks properly written, but with neither of the checks removed; the dotted lines show the perforations which make the checks more easily removed. The information in the ruled column at the right of the stub in Illustration No. 58 is for the depositor's convenience in keeping a record of his transactions with the bank, as explained in § 78.

§ 78. **Depositor's Record of His Transactions with the Bank.** Each depositor should keep a record of the transactions which he performs with the bank. This record may be kept in a special blank, on the front or back of the check stub, or in an account in the ledger. Since the depositor should know that the bank balance is sufficient to pay the check he is about to write, the front of the stub is the best place to keep the account with the bank. A column is usually ruled for this in the check book provided by the bank. Reference to Illustration No. 58 will show the method of keeping the bank account on the front of the check stub; the other methods mentioned will be explained and illustrated later.

§ 79. **The Bank's Record of Transactions with Depositors.** The depositor is credited with each deposit and debited with each check paid by the bank. The entry in his account is made from the deposit tickets and the checks which the bank has paid. On the first of each month, the bank renders the depositor a statement showing the date and amount of each deposit, the date paid and amount of each check, the daily balance, and the balance due the depositor at the end of the month. The checks listed on this statement are returned to the depositor with the statement; the deposit tickets are kept on file in the bank. Formerly it was the custom of banks to render this statement by listing the checks in the pass book and ruling it at the end of the month as in Illustration No. 59. With the use of special machines, it is more efficient to render a statement separate from the pass book, as in Illustration No. 60. When the separate statement is rendered, both sides of the pass book are usually used for listing deposits, though some banks enter the total of the paid checks in the pass book and show the balance at the beginning of the month below ruled lines.

In Account with

Dr. MERCHANTS NATIONAL BANK — *W. H. Goodwin*

Feb. 1	Deposit	1500	Feb. 3	Check	28
13	"	43555	5	"	125
28	"	24560	8	"	19710
			13	"	150
			17	"	10360
			23	"	17578 70
		218115			218115
Mar. 1	Balance	140245			

Illustration No. 59, Bank Statement in the Pass Book.

EXPLANATION. The illustration shows the opposite pages of a pass book. The information on the left page shows three deposits entered by the teller. The entries on the right show the checks listed by the bookkeeper when the depositor's pass book was balanced at the end of the month. The ruling is similar to the receipts and payments sides of a cash book. As explained in § 79, deposits are usually entered on both sides of the pass book and the canceled checks listed on a separate statement as in Illustration No. 60.

Statement of

W. H. Goodwin

In account with

Merchants National Bank

6 Vouchers Returned

PLEASE EXAMINE AT ONCE { IF NO ERRORS ARE REPORTED WITHIN TEN DAYS THE ACCOUNT WILL BE CONSIDERED CORRECT AND VOUCHERS GENUINE

Deposit	1500.00	
Check		28.00
"		125.00
"		197.10
Deposit	435.55	
Check		150.00
"		103.60
"		175.00
Deposit	245.60	

Illustration No. 60, Bank Statement Separate from Pass Book.

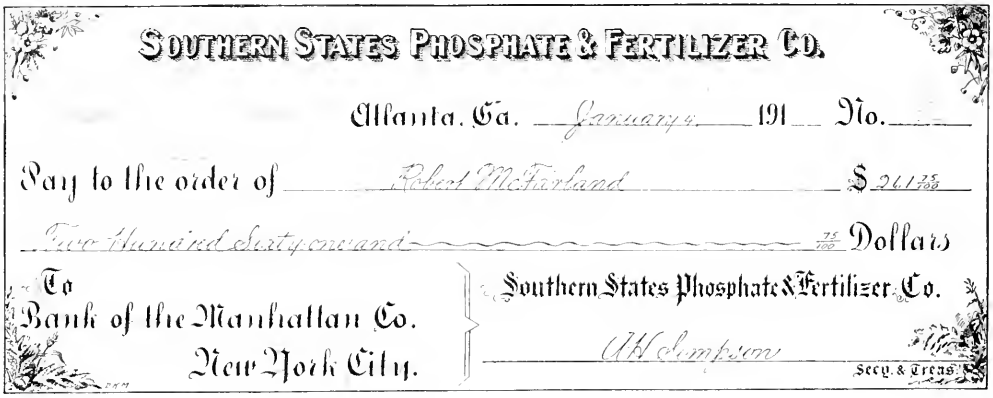
EXPLANATION. This statement was prepared on a special machine manufactured for making bank statements. The information in this statement is obtained from the account which the bank keeps with the depositor; the statement is rendered monthly. The canceled checks accompany the statement when it is delivered to the depositor.

§ 80. Reconciliation of Depositor's Account with the Bank Statement. The balance shown on the bank statement may or may not be the same as that shown by the depositor's record. If all checks issued by the depositor have been paid by the bank, if there have been no alterations and no errors in addition or subtraction in the depositor's record, the two balances will be the same; if all the checks issued have not been paid by the bank, or there have been errors or alterations, the two balances will not agree. The depositor should audit the bank statement with his record and reconcile the two balances when they do not agree; this reconciliation should be made as soon as the statement is received because alterations of checks should be reported to the bank immediately. The calculations in this reconciliation should be shown on the back of the stub from which the last check issued during the month for which the statement was rendered, was removed. As a rule, the only discrepancy between the two balances will be the amount of the check or checks issued by the depositor but not paid by the bank. The reconciliation should be made in the following manner:

1. Check each deposit with the entry for the same on the check stub. If there is a discrepancy, compare the check stub entry with the entry in the pass book, and this entry with that on the statement. If there is a discrepancy in a deposit ticket which can not be accounted for, it should be audited with the copy on file in the bank.

2. Compare each canceled check received from the bank with the stub from which it was removed; any discrepancy between the amount on the stub and that on the statement should be reported to the bank immediately. Place a check mark at the left of the number on the stub as each check is compared with its corresponding stub.

3. On the back of the stub from which the last check written during the month was removed, list the number and amount of each stub which does not have a check mark at the right of the number; add these amounts to ascertain the total of the checks issued but not paid by the bank. Write the balance shown by the bank statement below the total unpaid checks, and subtract the amount of the unpaid checks from the bank balance; the result should be the same as the check stub balance.


SOUTHERN STATES PHOSPHATE & FERTILIZER CO.

Atlanta, Ga. January 4 191 No.

Pay to the order of Robert McFarland $ 261.75

Two Hundred Sixty-one and 75/100 Dollars

To Bank of the Manhattan Co. New York City.

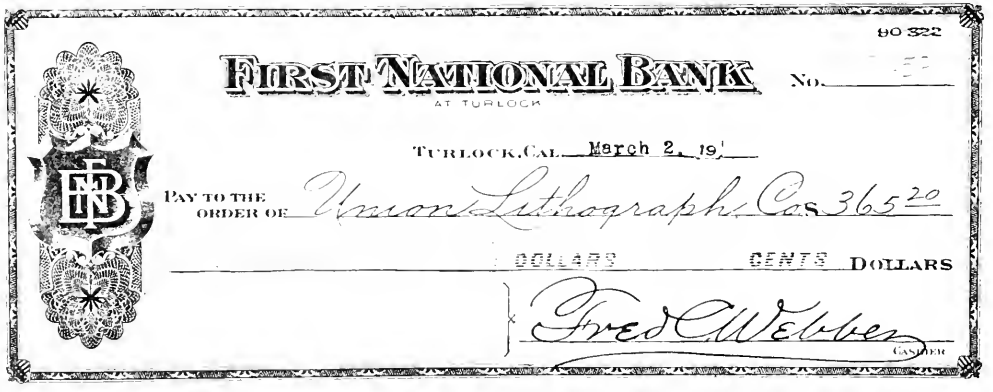
Southern States Phosphate & Fertilizer Co.

W. Simpson Secy. & Treas.

Illustration No. 61, Personal Check.

EXPLANATION. This illustration shows a check prepared by the depositor. It includes the usual information and the name and trade mark of the business.

§ 81. **A Bank Draft** is a check drawn by one bank on funds deposited with another bank. Bank drafts are sometimes referred to as "exchange;" a draft payable by a bank in New York, as "New York Exchange;" one payable by a Chicago bank, as "Chicago Exchange;" etc. Bank drafts are used by banks in payment of checks received for collection, sold to depositors for remitting to the commercial centers, and sold to individuals for sending money through the mail. Illustration No. 62 shows a bank draft payable by the Chase National Bank of New York, hence might be referred to as "New York Exchange." The use of bank drafts is discussed again in a subsequent chapter.


90-322

FIRST NATIONAL BANK AT TURLOCK No.

TURLOCK, CAL. March 2, 19

PAY TO THE ORDER OF Union Lithographic Co. $ 365.20

DOLLARS CENTS DOLLARS

Fred C. Webber CASHIER

Illustration No. 62, New York Bank Draft.

EXPLANATION. This illustration shows a check drawn by the First National Bank, Turlock, California, on funds which it has deposited with the Chase National Bank, New York.

§ 82. **A Cashier's Check** is a check drawn on a bank by its cashier. It is used in the payment of the operating expenses of the bank, in payment of the proceeds of collections or discounts made by the bank, and in payment of other obligations of the bank. Cashier's checks are sold to those who wish to use them as a means of sending cash through the mails in the same manner as bank drafts. Illustration No. 63 shows one form of cashier's check.

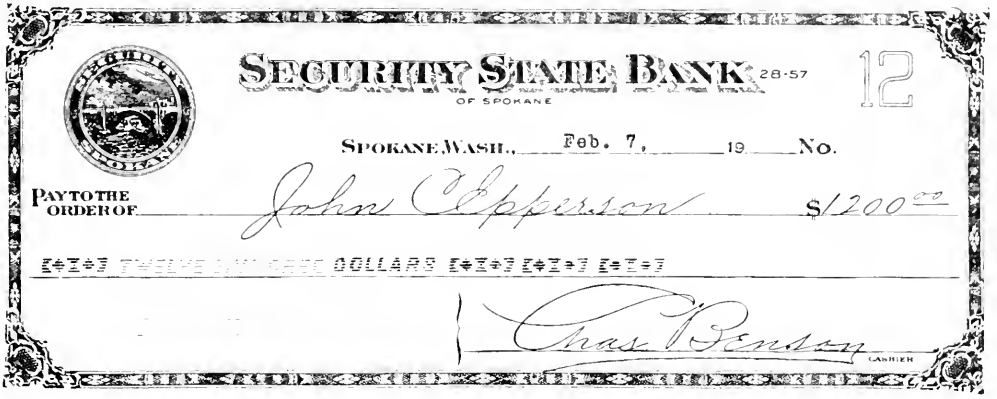


Illustration No. 63, Cashier's Check.

EXPLANATION. This illustration shows a check drawn by the cashier of the Security State Bank, Spokane, Wash., and payable by this bank.

§ 83. **Money Orders.** A money order is a check issued by one postmaster on funds deposited with another postmaster, by one agent of an express company on funds deposited with another agent of the same company, or by a bank on funds deposited with the Banker's Trust Company of New York. The first is referred to as a "postal money order;" the second, an "express money order;" and the third, an "American Bankers' Association (A. B. A.) check."

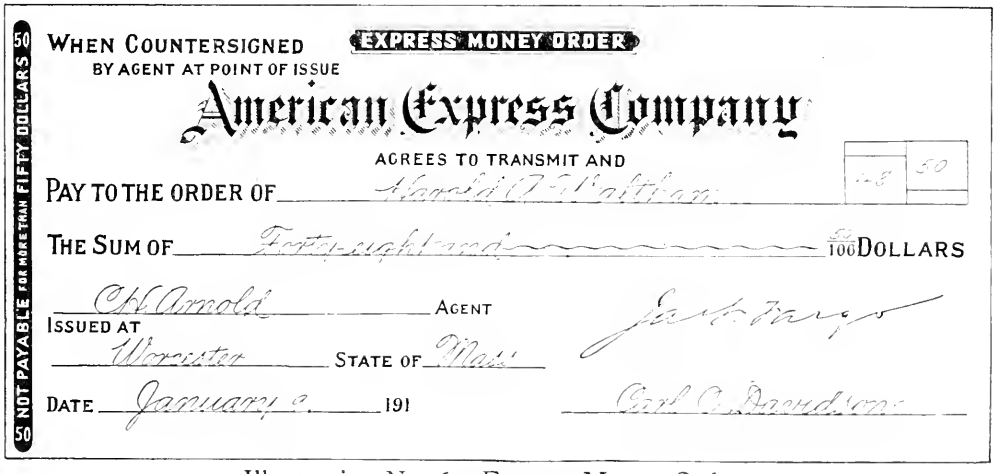

50
NOT PAYABLE FOR MORE THAN FIFTY DOLLARS
50
WHEN COUNTERSIGNED BY AGENT AT POINT OF ISSUE
EXPRESS MONEY ORDER
American Express Company
AGREES TO TRANSMIT AND
PAY TO THE ORDER OF Harold A Waltham
48 50
THE SUM OF Forty-eight and 50/100 DOLLARS
H L Arnold AGENT
ISSUED AT Worcester STATE OF Mass
DATE January 9. 191
Carl C Davidson

Illustration No. 64, Express Money Order.

EXPLANATION. This illustration shows a money order issued by the American Express Company. Carl C. Davidson, who wished to send money to Harold A. Waltham, presented $48.50 and the required fee to an agent of the American Express Company and received this money order for it. The purpose of money orders is to provide a means of transferring money from one locality to another with safety and convenience.

*

Postal money orders are for sale by each postmaster to those who wish to send money through the mail; they are also used by postmasters in remitting for collect on delivery parcel post shipments. Express money orders are for sale to those who wish to send money through the mail and, in this respect, are used for the same purpose as post-office money orders. Express money orders are arranged in convenient form for those who need expense money for a business or pleasure trip and do not wish to carry currency; they are also used by express company agents for remitting on "collect on delivery" express shipments. Bank drafts are used in the same way as express money orders—that is, for sending money through the mail—and for the convenience of those who wish to have available cash, but cash without carrying currency. A detailed discussion of "collect on delivery" shipments and a further discussion of the use of express money orders in connection with making remittances, are given in a subsequent chapter.

§ 84. **Endorsements.** An endorsement is any writing on the back of a check or other commercial paper, placed there for the purpose of transferring the title, receipting for part payment, or for the accommodation of some one or more of the parties on the paper. For convenience the endorsement should be written about one inch from the left-hand end of the paper, as in Illustration No. 65.

The endorsing of commercial paper should be well understood, as it transfers the title to the holder and holds the endorser liable in case default is made in payment. The law allows the same protection to commercial paper as it does to money, and unless it is properly endorsed, if lost, the finder may dispose of it to an innocent holder, in which case the loser can not recover it.

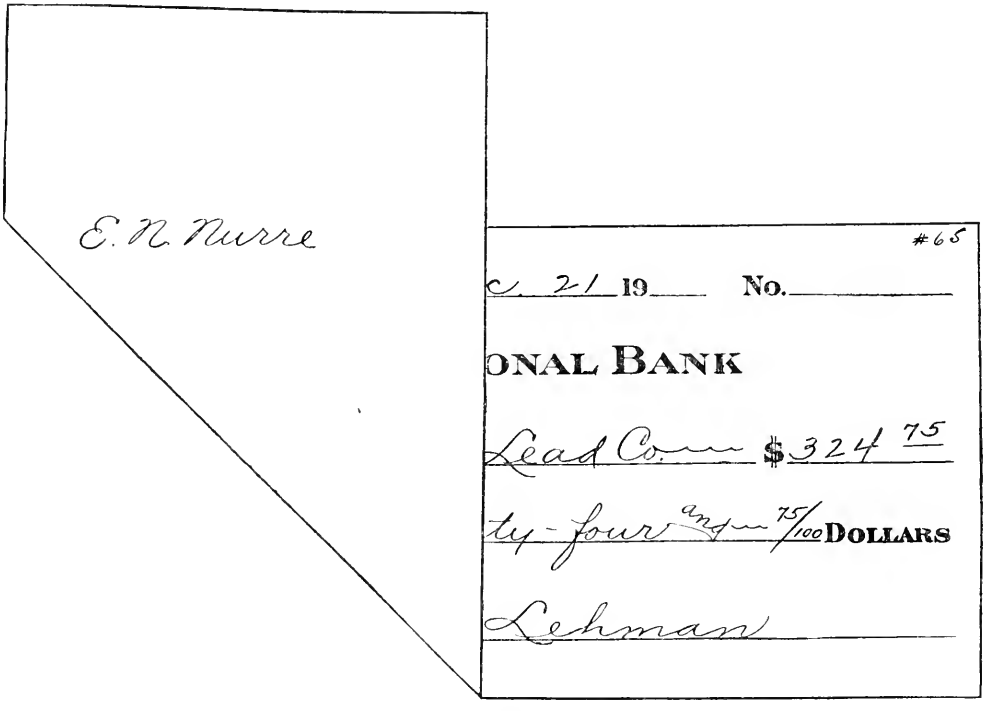


Illustration No. 65, Position of Endorsement.

EXPLANATION. This check is payable to The National Lead Co. and endorsed by it for deposit with the Third National Bank. The endorsement is placed on the left-hand end of the check for convenience.

§ 85. Endorsement for Transfer. There are a number of ways in which the holder of a commercial paper may write his name in order to transfer the title, but the four most frequently used are "in blank," "in full," "for deposit" and "for collection."

John Jones

¶ 1. *"In Blank."* An endorsement in blank is the name of the payee or holder only, written across the back. It has the same effect as making the paper payable to bearer, and it may be transferred by any subsequent holder, without further endorsement, but the endorsement of each holder is generally required, for identification. See illustration at the left.

Pay to the order of
C. W. King
John Jones

¶ 2. *"In Full."* This endorsement is effected by writing "Pay to the order of" above the name of the person or firm to whom it is transferred, and signing the name of the payee or holder. The person to whom it is transferred must endorse it before any succeeding holder can use it. All papers sent through the mail, or to be held for some time should be endorsed in full. See illustration at the left.

Pay to the order of
Union Bank
For deposit
W. H. Goodwin

¶ 3. *"For Deposit."* These words should be written above the name of the depositor on checks and other cash items to be deposited in the bank. This qualifies the endorsement and prevents their being used except for deposit. If desired, a rubber stamp with the words of the illustration at the left may be used for this purpose. If a stamp is used, the one who makes the deposit should indicate his name in connection with the endorsement.

Pay to the order of
Union Bank
For collection
W. H. Goodwin

¶ 4. *"For Collection."* Commercial paper left at a bank or other collection agency for collection, should have "For Collection" written above the endorsement, as in the illustration at the left. Unless the endorsement is qualified in this manner, the owner might be held responsible as an endorser for the collection of the paper in case of the bankruptcy of the bank or collection agency. This is a condition that might not occur often, but, if it can be avoided by the qualified endorsement, then the holder should protect his interests through the endorsement.

The result of improper endorsements for collection may be illustrated by the following incident, which is true with the exception of the names. Robert Smith endorsed a note in blank and left it with his bank for collection. Mr. Smith died before the note was due. The bank failed and a receiver was appointed. Transactions performed by the bank had not been recorded correctly and in some cases there was doubt as to the ownership of the papers. The estate of Mr. Smith could submit no evidence to show that the note endorsed by him was left for collection, hence the receiver of the bank assumed that it was discounted, and held the estate responsible on account of Smith's endorsement.

Exercise No. 44, Personal Check.

As paying cashier for the Johnson Paint Co., Chicago, write the stub and check required to pay for the merchandise purchased from the Globe-Wernicke Co., Cincinnati, in Exercise No. 43. Use the first check and stub in Illustration No. 58 as a model.

Exercise No. 45, Reconciliation of Bank Account.

J. E. Gill performed the following transactions with the Merchants National Bank during the month of April:

2.	Deposit		$2,900.00	13.	Check No.	13	$457.74
2.	Check No.	1	208.80	14.	" "	14	48.10
2.	" "	2	20.00	14.	" "	15	273.42
3.	" "	3	450.00	14.	Deposit		341.38
4.	" "	4	101.00	16.	Check No.	16	150.00
5.	" "	5	150.00	18.	" "	17	256.01
6.	" "	6	75.00	21.	" "	18	94.75
7.	" "	7	165.50	21.	Deposit		791.00
7.	" "	8	40.00	24.	Check No.	19	141.32
7.	" "	9	38.00	25.	" "	20	103.88
7.	Deposit		248.65	27.	" "	21	279.77
10.	Check No.	10	445.23	28.	" "	22	38.00
11.	" "	11	60.00	30.	" "	23	567.43
11.	" "	12	49.50	30.	Deposit		815.24

1. On a slip of paper, write "Bank Account on Check Stub," and below this write the date and amount of each deposit, the date, number, and amount of each check, showing the balance in the bank after each deposit has been added and each check subtracted.

2. On a slip of paper, write "Reconciliation of Bank Account," and below this show the reconciliation of Mr. Gill's bank account with the statement received from the bank May 1, which shows a balance of $1,667.57 and is accompanied by all canceled checks except Nos. 9, 19, 22, and 23.

Exercise No. 46, Reconciliation of Bank Account.

Show the bank account on the front of the check stub for W. A. Gordon (Model Set beginning on page 61) for the month of September and on the back of the check stub for the month of October, assuming that all payments were made by check, that the investment September 1 was deposited on that date and other deposits were made each time cash was proved, and that the check book contained two checks to the page.*

Show the reconciliation of the bank account on October 1 with the statement received from the bank on that date, which shows a balance of $768.00 and is accompanied by all canceled checks except No. 6.

Show the reconciliation of the bank account on November 1 with the statement received from the bank on that date, which shows a balance of $703.39 and is accompanied by all canceled checks except Nos. 12 and 16.

*When the bank account is kept on the front of the check stub, each check is subtracted as it is written, each deposit is added at the time it is made, and the balance is carried forward at the bottom of each page as in Illustration No. 58. When the bank account is kept on the back of the check stub, the number and amount of each check issued since the last deposit was made are listed, added, and subtracted from the sum of the preceding balance and the deposit that is to be made. In September the student will subtract each check as it is issued from the deposit of September 1st until the next deposit is made; this deposit will be added to the balance left after subtracting the last check, and succeeding checks will be subtracted as they are issued, showing in each case the balance in the bank after each check is issued. In October the balance and the first deposit, which is made at the time cash is proved, are added together; checks issued between October 1st and the date of the first deposit in October are listed, added, and their total subtracted from the total of the balance and the deposit, the result showing the balance in the bank at the time cash is proved.

QUESTIONS

1. Why do the officials of a bank require reference from a new depositor if they are not personally acquainted with him?
2. What evidence does the depositor have that he has deposited money in the bank?

3. What evidence does the bank have that it has paid a part or all of the money which the depositor has deposited?
4. Why should the bookkeeper retain a copy of each deposit ticket?
5. Name two ways of retaining this copy.
6. What additional information is contained in the copy of the deposit ticket that is not shown by the entry in the pass book?
7. If you were auditing the entries on the receipts side of the cash book, what need would you have for the copies of the deposit tickets and the entries in the pass book?
8. If you were to find a check signed by a local merchant, payable to Robert Jones, and "Robert Jones" was written on the back, how could you obtain the money on this check?
9. If the bookkeeper writes a check and fails to fill out the stub, how will he detect the error?
10. If you were keeping books for a local merchant and he withdrew $100.00 from the bank by check, using one of the blanks on the counter in the bank, and failed to tell you that he had issued the check, when and how would you learn about it?
11. Name two means of ascertaining the amount of a check if it is removed from a check stub without the stub being filled out?
12. If the bookkeeper makes an error of $10.00 in subtracting the amount of a check on the check stub, how will he detect the error?
13. If you were keeping books, would you prove cash before making a deposit? Give reasons for your answer.
14. If there is an error of $10.00 in the addition of a deposit ticket and a corresponding error in the addition in the cash book, when and how will the bookkeeper discover the error?
15. How is a check used in the place of money?
16. Explain why a check which has been paid by the bank may be regarded as a receipt.
17. If you were making a trip in an automobile from New York City to San Francisco, would you prefer your expense funds to be in money, to be deposited in a Chicago bank subject to check, or in money orders? Give reasons for your answer.
18. John Anderson in Atlanta, Georgia, wishes to send $35.00 to Henry Smith in St. Louis, Missouri. Name four ways by which he can send this, and state which you think would be the best.
19. Why is it better for the bookkeeper to keep the bank account on the front of the check stub?
20. Name three reasons why the statement rendered by the bank on the first of the month might be different from the depositor's record on the check stub.
21. If R. W. Sanderson leaves a check payable to himself at the bank for collection, how will he endorse it?
22. If you were keeping books for a local merchant and received a check from a customer for $112.50 marked "In full of account," and his account showed a balance of $117.50, what would you do?
23. Name some of the advantages to the bookkeeper when cash payments are made by check instead of with currency.
24. Why does the bank return the paid checks when it sends the monthly statement?
25. Why is the endorsement written on the left instead of the right end?

Chapter XI

BUSINESS FORMS AND VOUCHERS—(Concluded)

§ 86. **A Note** is an unconditional written promise to pay a fixed amount of money at a stated time, and is signed by the person or persons agreeing to pay it. If desired, the place at which the note is to be paid may be stated in it. A note has two original parties, the maker and the payee. The maker is the one who signs the note and thereby agrees to pay the amount stated in it; the payee is the one in whose favor the note is made, that is, the one to whom the money is to be paid. A note indicates that the maker is indebted to the payee and acknowledges this indebtedness by agreeing to pay it at the time stated in the note.

1. *The face of a note* is the amount stated in it. This amount is shown as its value in the account with notes (§ 102, ¶ 1, or § 103, ¶ 2).

2. *The maturity value of a note* is the amount to be collected at maturity. If a note reads "with interest after maturity," the face is the maturity value; if it reads "with interest from date," the maturity value is the face plus interest at the legal rate from date to maturity.

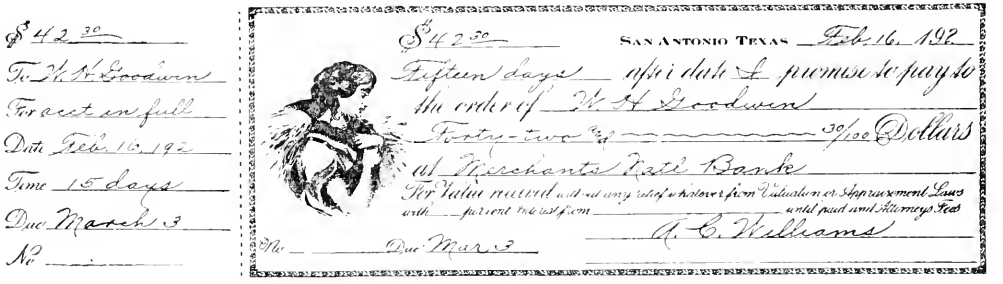

$42.30
To W. H. Goodwin
For account in full
Date Feb 16, 192
Time 15 days
Due March 3
No
$42.30
San Antonio Texas Feb 16 192
Fifteen days after date I promise to pay to
the order of W. H. Goodwin
Forty-two 30/100 Dollars
at Merchants Natl Bank
For Value received with ad vany relief whatever from Valuation or Appraisement Laws
with per cent interest from until paid and Attorneys Fees
No Due Mar 3
A. C. Williams

Illustration No. 66, Note With Stub Attached.

EXPLANATION. This note indicates that A. C. Williams owes W. H. Goodwin the amount mentioned and has promised to pay it at the time and place indicated.

§ 87. **Use of Notes.** Notes are used as written evidence of indebtedness resulting (a) from a purchase of merchandise or other property, (b) from a loan, or (c) from an extension of time for the payment of a past-due obligation as shown by an account. With the advantages of the trade acceptance, notes are not often given in payment for merchandise purchased at the time it is purchased. A bank will require written evidence of an obligation resulting from money loaned; the business man may give his own note as evidence of the loan, or he may sell to the bank notes which he has received from his customers. When an account is past due and the customer desires more time, he may make settlement by accepting a draft or by giving his note; the results are the same in that he secures an

extension of time by giving a written promise to pay it at the time specified in the note or draft.

(a) James Brown buys a piano from the Starr Piano Co. for $500.00. He pays $100.00 cash and gives four notes for $100.00 each, due in three, six, nine, and twelve months respectively, in payment for the piano.

(b) The Starr Piano Co. wishes to borrow $1,000.00 from the bank with which it does business. A note is issued for this amount, bearing interest at 6% from date, payable in ninety days, and this is presented to the bank for credit. The Starr Piano Co. will receive credit for the $1,000.00 in their pass book in the same manner as for a deposit.

(c) The Acme Amusement Co. purchased an electric player piano from the Starr Piano Co. for $1,500.00, and paid $800.00 cash, balance to be paid in thirty days. At the end of the thirty days the Acme Amusement Co. arranged with the Starr Piano Co. for an extension of sixty days by giving their note for $700.00, with interest, payable to the Starr Piano Co.

§ 88. Endorsement of Notes. There are three reasons for the endorsement of a note: (a) accommodation (security), (b) transfer of ownership, and (c) receipt for part payment. Endorsement for accommodation is usually made as explained in § 85, ¶ 1; endorsement for transfer of ownership is usually made as explained in § 85, ¶ 2; endorsement for a receipt of $100.00 in part payment of this note is made as follows: "Jan. 10, Received $100.00 in part payment of this note." The holder will endorse the part payment on the note but should not sign his name because this transfers ownership in case the note gets out of his possession.

Banks sometimes require security in addition to the signature of the business concern borrowing money. Should this have been required of the Starr Piano Co. in the loan of $1,000.00 mentioned in § 87, (b), one of the individuals who owns an interest in the business would sign his name on the back as explained in § 85, ¶ 1. Should the Starr Piano Co. wish to sell the note received from James Brown, the endorsement would be "in full" as explained in § 85, ¶ 2. If the note was to be transferred to the First National Bank, the endorsement would be "Pay to the order of the First National Bank, Starr Piano Co., by (the name of the person authorized to sign for the company)." Should the Acme Amusement Co. in the illustration pay $200.00 on the note given in extension of its account, receipt for part payment would be indicated by writing the date and the amount received on the back, as explained above.

§ 89. Effect of Notes on the Bookkeeping Records. When a note is issued by the business, full information in regard to it is retained on the stub from which it was removed. An entry is required in a book of original entry because the note would not have been issued unless value was received; the value received might be an obligation canceled or a new obligation created. If the note cancels a liability, the value received is the discharge of this obligation or liability, hence the account which shows it is debited; if the note creates a new obligation, an asset of equal value is received, hence the value received is this asset, and the account with it is debited; the value parted with in either case is the obligation created by the note, hence the account with notes issued by the business (§ 103, ¶ 2) is credited. When a note is received by the business, it may be in payment for merchandise or other property purchased at the time the note was issued. The value received is the note, hence the account which is to show the amount of notes owned by the business (§ 102, ¶ 1) is debited. The value parted with is the merchandise sold or the account with the customer, hence either the Sales or the customer's account is credited. If desired, the sale can be entered in the sales journal in the same manner as any other sale on account, debiting the customer's account; in this case, the credit to the Sales account will be through the sales journal, hence the credit for the note would be to the customer's account in the same manner as if the note were received in payment of an account already in the ledger.

Transactions in which notes are issued or received by the business are usually recorded in the general journal unless cash is received for a note issued or paid for a note received, in which case the entry is made in the cash book. Special journals may be provided for notes issued and received by the business; these are explained and illustrated in a subsequent chapter.

Referring to the illustrations in § 87:

(a) The sale would be recorded in the sales journal, thus debiting James Brown and crediting Sales; the cash would be recorded in the cash book, thus debiting Cash and crediting James Brown; and the notes would be recorded in the general journal, debiting the account with notes received (§ 102, ¶ 1) and crediting James Brown.

(b) The entry would be made on the receipts side of the cash book, thus debiting Cash and crediting the account with the note issued by the business (§ 103, ¶ 2.)

(c) The sale would be recorded in the sales journal, thus debiting the Acme Amusement Co. and crediting Sales; the cash would be recorded in the cash book, thus debiting Cash and crediting the Acme Amusement Co.; the note would be recorded in the general journal, debiting the account with notes received (§ 102, ¶ 1) and crediting the Acme Amusement Co.

§ 90. **A Note Should Be Signed** by the person or persons responsible for its payment. If an agent is authorized to execute a note for another, he signs the name of his principal and his name below, either preceded by "per" or "by" or followed by "agent;" the omission of the word before or after the agent's name might cause him to be held jointly with the principal. The one who signs a note for another is regarded as the agent, and the one responsible for the payment, as the principal; the agent should have a written statement from the principal authorizing him to sign his name. The holder of a note will expect payment from the person or persons whose names are signed to it; he will also hold responsible for the payment each individual whose name appears on the back of the note.

Referring to the illustrations in § 87:

(a) The notes would be signed by James Brown who purchased the piano.

(b) This note would be signed "Starr Piano Co.," by the individual authorized to sign, usually the president or secretary if it is a corporation, or one of the partners if it is a partnership.

(c) This note would be signed in the same manner as that described in (b) because the name of the company is not that of an individual and means nothing when signed to a note unless accompanied by the name of the individual authorized to sign.

§ 91. **A Draft** is a written order from one party to another, directing him to pay a certain sum of money to a third party. A draft has three original parties: the drawer, the drawee, and the payee. The one signing the draft is the drawer; the one who is asked to pay the amount is the drawee; and the one to whom the money is to be paid is the payee. The draft indicates that the drawee is indebted to the drawer, and that he (the drawer) wishes the amount paid to the payee. Drafts are usually drawn on blank forms bound in a book, each draft being provided with a stub for a record of the facts shown by the draft. There are three kinds of drafts, *time drafts*, *sight drafts*, and *trade acceptances*.

§ 92. **A Time Draft** is one payable a certain number of days after presentation; it indicates that the drawer is willing to allow the drawee additional time to make payment of the indebtedness due the drawer. This additional time is indicated by stating in the draft that the amount is to be paid the designated number of days after acceptance. The drawee of a time draft is not obligated to accept it when it is presented by the payee. If he does accept it, this acceptance is indicated by writing across the face of the draft the word "Accepted," followed by the date of acceptance, and the drawee's signature; if desired, the place of payment may also be indicated in the acceptance. If the drawee does not elect to accept the draft when presented to him by the payee, the payee should immediately return it to the drawer so that he may know the drawee has not complied with his request. Illustration No. 67 shows one form of time draft.

1. *An acceptance* is a time draft after it has been accepted. It is the same as a note because the acceptance is the written promise of the person who accepts it to pay the amount mentioned within the number of days stated in the draft. The account which shows a record of notes should also contain a record of accepted drafts.

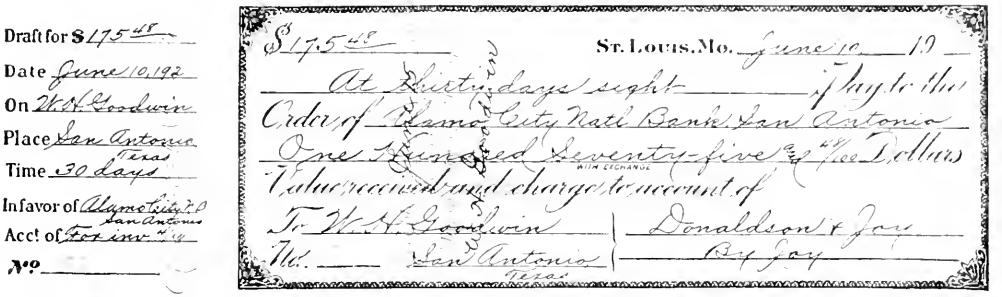

Draft for $175.45
Date June 10, 192
On W. H. Goodwin
Place San Antonio Texas
Time 30 days
In favor of Alamo City Nat'l Bk San Antonio
Acct of For inv. &c
No.
$175.45
St. Louis, Mo. June 10 19
At thirty days sight
Order of Alamo City Nat'l Bank, San Antonio
One Hundred Seventy-five 45/100 Dollars
WITH EXCHANGE
Value received and charge to account of
To W. H. Goodwin
No. San Antonio Texas
Donaldson & Joy
By Joy

Illustration No. 67, Time Draft Accepted and Returned.

EXPLANATION. The draft in the illustration was drawn June 10, sent to the bank for presentation and acceptance, presented to the drawee and accepted by him on June 15, and returned to the drawer by the bank. The draft is shown detached from the stub because the date of acceptance was entered on the stub by the bookkeeper for Donaldson & Joy after the draft was accepted and returned.

The bookkeeper should indicate on the stub the final disposition of each sight and time draft drawn by showing the acceptance on the stub as in the above illustration, or, if a sight draft, by entering "Paid" and the date of payment on the stub, or by entering "Returned" and the date on the stub if either the sight or time draft is not paid or accepted. The acceptance of a time draft and the entry on the stub may be made with red or black ink; the use of red ink is optional with the bookkeeper.

§ 93. A Sight Draft is one which is payable upon presentation; it indicates that the indebtedness of the drawee to the drawer is due or past due, and that the drawer desires it to be paid immediately. The drawee of a sight draft is not obligated to pay it when it is presented to him by the payee, but if he does pay it, he will hold the draft as his receipt for the payment; if he refuses payment, the payee should return the draft to the drawer at once. Illustration No. 68 shows one form of sight draft.

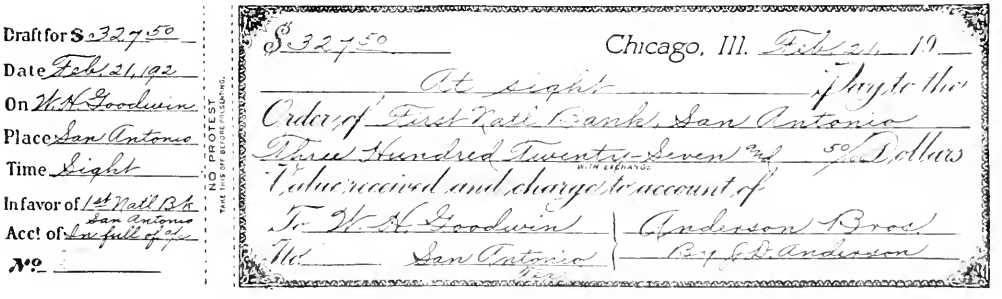


Illustration No. 68, Sight Draft with Stub Attached.

EXPLANATION. The draft in this illustration indicates that W. H. Goodwin of San Antonio, Texas, owes Anderson Bros. of Chicago, the amount mentioned in the draft. Anderson Bros. have asked him to pay the amount to the First National Bank of San Antonio, Texas. This draft will be sent to the First National Bank with instructions to present it for collection. If W. H. Goodwin pays the draft when it is presented, the bank will write Anderson Bros. to this effect and send a bank draft or cashier's check for the amount collected, less a small collection charge. If the draft is not paid upon presentation, it will be returned to Anderson Bros.

§ 94. **A Trade Acceptance** is defined by the Federal Reserve Board as "a bill of exchange (time draft) drawn by the seller on the purchaser of goods sold, and accepted by such purchaser," this acceptance being made on the date of purchase or within a few days thereafter. The trade acceptance is in the form of a draft, but it differs from a draft in that it is accepted by the drawee at the time the merchandise is purchased, while the acceptance of a draft is usually after the debt is due, as shown by the drawer's account with the drawee. Trade acceptances and the accounting procedure in connection therewith are discussed more fully in a subsequent chapter.

§ 95. **Use of Drafts.** Sight drafts are used for collecting past-due debts from out-of-town customers, and for collecting "collect on delivery" freight shipments. Time drafts are used for collecting past-due debts from out-of-town customers, and for changing an account to a written promise to pay at a designated time. Trade acceptances are used to secure written evidence of a sale at the time the sale is made.

September 10 Robert Anderson & Co., Chicago, sell merchandise to James Cowan, Louisville, on thirty days' time. Mr. Cowan fails to send remittance when the debt is due October 10, and Robert Anderson & Co. undertake to make collection by drawing a sight or time draft on him, payable to the First National Bank in Louisville. When this draft is presented, Mr. Cowan will either pay the (sight) draft or accept the (time) draft. If it is a sight draft and paid, the First National Bank will send Robert Anderson & Co. a cashier's check or bank draft in payment; if it is a time draft and accepted, the bank will follow the company's instructions in regard to retaining it for collection or sending it to them.

September 15 Robert Anderson & Co. sell Albert Baker, Springfield, merchandise on ninety days' time. October 10 Robert Anderson & Co. find that it will be necessary for them to borrow money from the bank. They write Albert Baker for the privilege of drawing a sixty-day draft for the amount of his indebtedness. It is quite probable that he will have no objections to accepting the draft because it does not change the time of paying his obligation. If he accepts the draft, Robert Anderson & Co. will have a written statement of the amount he owes and can discount this at the bank and thus secure the money which it needs.

§ 96. **Endorsement of Drafts.** The only reason for any writing on the back of a draft is to transfer title or to authorize collection. If the payee is a bank located in the same city as the drawer, the endorsement will be for collection as explained in § 85, ¶ 4, to transfer it to a bank in the city where the drawee is located. Several endorsements might be necessary in case the collecting bank sends it through banks with which it does business; the form of endorsement in each case would be the same as that described in § 85, ¶ 4. In case the holder of an accepted time draft wishes to sell it, the endorsement would be "in full" as explained in § 84, ¶ 5.

In the first illustration given in § 95, no endorsement would be required on the sight or time draft in favor of the Louisville bank. If either the sight or time draft had been drawn in favor of the Corn Exchange National Bank of Chicago, it would have been necessary for this bank to send it to the Louisville bank for collection. The endorsement would be as illustrated in § 85, ¶ 4.

When Robert Anderson & Co. discounted the acceptance of Albert Baker, described in the second illustration given in § 95, the endorsement would be "in full" as explained in § 85, ¶ 2.

§ 97. **Effect of Drafts on the Bookkeeping Records.** When the owner of a business draws a draft on an out-of-town customer, he retains a record of the draft through the stub from which it was detached. Since he does not know that the customer will pay the (sight) draft or accept the (time) draft upon presentation, no additional record is needed in regard to the draft. When the payee advises him of the drawee's action in regard to the draft, he indicates the result on the stub from which the draft was detached. When the drawee accepts a time draft a record of this is made in the general journal because the indebtedness is now in the form of a written agreement (the acceptance indicating this) and the open account is canceled thereby. The value received is the draft, hence the account with accepted drafts (§ 102, ¶ 1) is debited; the value parted with is the

account with the customer (§ 27, ¶ 2), hence it is credited. When the drawee pays a sight draft upon presentation, the payee will send the drawer a cashier's check or bank draft in payment for the draft, the draft having been left with the payee as a receipt. When this remittance is received by the drawer, the customer is given credit on the receipts side of the cash book in the same manner as if he had sent his check in payment of the account.

When the business pays a sight draft drawn on it by a creditor, the same entry is made in the cash book as if a check had been sent direct to the creditor in payment of his account. When the business accepts a time draft drawn on it by a creditor, an entry is required in the general journal; the account with the creditor (§ 28, ¶ 1) is debited because it is canceled, and the account which is to show a record of written promises to pay (§ 103, ¶ 2) is credited because this account will show the indebtedness until it is paid.

§ 98. Protest. Each person or business concern whose name appears as an endorser on any commercial paper (for instance, check, note, or draft) guarantees payment provided the holder will first present the paper to the one who is responsible for payment and thus endeavor to make collection. The law provides that the only evidence the holder can use as a defense in a case of court action is the protest by a notary public. This protest is a form which the notary public sends to each endorser after he has presented the paper to the one responsible for its payment and payment has been refused.

The Starr Piano Co. sells the note received from the Acme Amusement Co. (Illustration "c" in § 87) to the First National Bank, endorsing the note as evidence of transfer. On the date the note falls due, the bank presents it at the office of the Acme Amusement Co. and demands payment from the official who signed the note; payment is refused. The note is given to a notary public and he presents it to the same official. If payment is still refused, he notifies the Starr Piano Co. on the proper legal form. Unless the bank had taken this procedure, the Starr Piano Co. would have been relieved of the responsibility of making payment, and the bank would have lost the amount unless it could collect from the Acme Amusement Co.

Exercise No. 47, Order, Sales Invoice, Acceptance, and Cashier's Check.

May 10 the Davis Printing Company, Pittsburgh, placed an order with Ault & Wiborg, Cincinnati, manufacturers of printer's ink, for 150 lbs. of printer's ink (black) at $1.25, and 75 lbs. of printer's ink (blue) at $1.50. May 15 Ault & Wiborg acknowledged receipt of this order by an invoice. The merchandise was billed net 30 days and shipped via Steamer Queen City. The Davis Printing Company had not paid this invoice June 15 and Ault & Wiborg drew a draft at ten days' sight, payable to the Mellon National Bank in Pittsburgh, and sent the draft to it for acceptance and collection. The bank presented the draft May 17 and the Davis Printing Company accepted it. May 25 the bank notified the Davis Printing Company that the draft was due May 27. The Davis Printing Company paid the draft by check on the Mellon National Bank the day it was due. The bank sent a cashier's check for the amount of the draft less $1.00 collection charges May 28.

Prepare the purchase order which the purchasing agent for the Davis Printing Company would issue, the sales invoice which the bookkeeper for Ault & Wiborg would make, the draft which the bookkeeper for Ault & Wiborg would draw, the acceptance which the bookkeeper for the Davis Printing Company would make on this draft, and the cashier's check which the cashier of the Mellon National Bank would send to Ault & Wiborg.

Exercise No. 48, Order, Sales Invoice, Sight Draft, and Cashier's Check.

September 25 the Starr Piano Co., Chicago, sold the Jones Piano Co., Milwaukee, 100 Victrola records at 51c, terms 30 days; shipment was made via American Railway Express, charges collect. October 28 the bookkeeper for the Starr Piano Co. drew a sight draft on the Jones Piano Co. for the amount of this invoice

payable to the First National Bank in Chicago, and left it with the bank for collection. The bank sent the draft to the Second National Bank in Milwaukee with instructions to present it to the Jones Piano Co. for payment. The draft was paid by John Nash, an employee of the Jones Piano Co., upon presentation by a clerk of the Milwaukee bank, and the Milwaukee bank sent the Chicago bank a cashier's check for $50.75, retaining 25c for collecting the draft. The Chicago bank notified the Starr Piano Co. that the draft had been collected and their account credited with $50.75, the proceeds of the draft.

Prepare the purchase order which the purchasing agent for the Jones Piano Co. would issue, the sales invoice which the clerk for the Starr Piano Co. would make, the draft which the bookkeeper for the Starr Piano Co. would draw, and the cashier's check which the First National Bank of Chicago would receive from the Second National Bank of Milwaukee. Show the endorsement which the Chicago bank would make on the draft before sending it to the Milwaukee bank, and the entry the Chicago bank would make in the pass book of the Starr Piano Co. for the cashier's check received in payment for the draft.

Exercise No. 49, Notes, Time Drafts, Sight Drafts, Bank Drafts, and Checks.

The following transactions in connection with notes and drafts were completed by the Central Hardware Company of Buffalo during July and August:

July 1. Received from Trowe Bros., Watertown, in full of account, a note for $525.65, dated June 29, due in two months, with interest at 6% after maturity, payable at the First National Bank of Watertown.

July 28. Accepted a draft drawn July 26 by the Harding Mfg. Co., Little Falls, for $1,214.60, payable at thirty days' sight. This draft was drawn in favor of the Citizens National Bank, Little Falls, and sent by this bank to the Third National Bank of Buffalo, which presented it for acceptance.

Aug. 17. Paid by check on the Third National Bank of Buffalo a sight draft for $275.60, drawn by Rand & Co., Cleveland, Ohio, August 15.

Aug. 27. Gave the Third National Bank of Buffalo a check for $1,214.60 in payment for a bank draft drawn on the Chase National Bank, New York City, for the same amount, and sent this draft to the Harding Mfg. Co., Little Falls, in payment for the acceptance of July 28.

Aug. 31. Received from Trowe Bros. a new note, dated July 29, with interest at 6% from date, due in two months, payable at the First National Bank of Watertown, and a cashier's check for $300.00 drawn on the First National Bank of Watertown by M. A. Rand, cashier, in our favor, in payment for their note due today.

Prepare the following business forms:

1. The note required in the transaction of July 1.
2. The draft required in the transaction of July 28, with all endorsements.
3. The draft and check required in the transaction of August 17.
4. The check and bank draft required in the transaction of August 27.
5. The note and cashier's check required in the transaction of August 31; the new note should be made payable at the same bank as the one renewed.

QUESTIONS

1. Would the Horne Department Store, Pittsburgh, draw a sight draft on C. A. Eades, 1262 Penn Ave., Pittsburgh, to collect a debt due from him? Why?

2. Would this concern accept a note in settlement of the account?
3. U. B. Sweet owes the Candy Kitchen an account of $100.00 and secures an extension of sixty days by giving his note for this amount, due at the expiration of that time. (a) Have his liabilities decreased? (b) Have the assets of the Candy Kitchen increased? (c) To whom will the note be paid?
4. Why should a draft be made payable to the bank at which the drawee does business?
5. Would you consider it fair for one of your creditors to draw a sight or time draft on you for an amount you owed without first notifying you?
6. Is it necessary for the drawee of a draft to pay or accept it when presented? Why?
7. In what respects is a sight draft similar to a check?
8. In what respects is an accepted time draft similar to a note?
9. If you sell merchandise to a customer in another city, how will you expect him to pay for the merchandise?
10. Would you consider it fair for this customer to send you a draft drawn on one of his customers in your city, asking you to collect your debt from this customer?
11. How does the drawee of a time draft indicate that he will pay the amount of the draft?
12. How does the drawee of a sight draft indicate that he will pay the amount of the draft?
13. Explain the use of notes and drafts in business.
14. If the drawee pays a sight draft, what accounts are debited and credited?
15. If the drawee accepts a time draft, what account shows the value received? the value parted with?
16. What accounts are affected when the owner of the business accepts a note from a customer in full of account?
17. Name the accounts debited and credited when the business issues a note (a) for borrowed money, and (b) to pay a creditor.
18. What accounts represent the value received and the value parted with to the drawee of an accepted draft? To the drawer?
19. Why is a draft endorsed? a note? a check?
20. Distinguish between the face value and maturity value of a note.
21. If John Smith transfers a check to you by endorsement and the bank refuses payment of the check because the one who drew it did not have sufficient funds on deposit, how would you notify John Smith of the bank's action so as to hold him responsible for the amount of the check?
22. Why is it advisable to have the receipt of part payment for a note endorsed on the back instead of acknowledged by a separate receipt?
23. Why is it advisable for the holder of the note not to write his name in connection with the endorsement of a receipt for part payment?
24. Explain the difference between a note and a check.
25. Whom does the holder of a note hold responsible for its payment?

Chapter XII

ACCOUNTS WITH FIXED ASSETS, NOTES, AND INTEREST

The Purpose of this Chapter is to explain accounts with fixed assets, notes and interest. A knowledge of these accounts is necessary because they are needed in the recording of business transactions. Equipment is needed in connection with the operations of the business; transactions frequently occur involving the use of notes and drafts; and interest cost and interest income must be recorded.

§ **99. Fixed Assets.** The building or place in which the business conducts its operations usually requires certain fixtures necessary in connection with the operations of the business; these include shelving, show cases, desks, typewriters, filing cases, etc. This property, when purchased, becomes a part of the assets of the business; such assets are usually referred to as "fixed assets" to distinguish them from "current assets," such as cash, merchandise in stock, accounts due from customers, etc. The value of property purchased for use in the business is recorded in a special account or accounts, in such a way that the cost value of the property will always be shown; the balance should show cost to facilitate insurance adjustment in case of fire and to determine the yearly depreciation which is based on the cost. The Furniture and Fixtures account is the only fixed asset account discussed in this chapter; a more complete discussion will be given in a subsequent chapter.

FURNITURE AND FIXTURES ACCOUNT

§ **100. The Purpose of this Account** is to show the cost value of property purchased for use in the office and store room, which includes desks, filing cabinets, typewriters, show cases, scales, etc. A permanent record of each article purchased should be kept, either in the explanation column of the account or in a separate inventory book.

Debit the Furniture and Fixtures Acct.:

¶ 1. For the value of furniture and fixtures on hand at the beginning of business, and for the cost value of such property purchased.

Credit the Furniture and Fixtures Acct.:

¶ 2. For the cost value of furniture or fixtures sold, the cost of which was debited to this account when purchased.

¶ 3. *The Balance of the Furniture and Fixtures Account* shows the cost value of the furniture and fixtures owned by the business* as the result of transactions in which furniture and fixtures were purchased or sold. It is shown on the Balance Sheet as one of the "Fixed Assets."

§ **101. Transactions with Notes and Accepted Drafts** require accounts in which to record them. The reason for this is that a note is a written agreement, while the amount in an account is subject to dispute even though it may be supported by business forms. Thus the account with James Atkin may show a debit balance of $250.00, but this does not mean that Mr. Atkin will pay $250.00 because there might have been an error in recording the amount. On the other hand, if James Atkin has given the business a written promise to pay $250.00 on a definite date, this is not subject to dispute as he will be required to pay this amount.

(Concluded on page 127.)

*The nature of the property will determine the method of taking care of the decrease in value due to wear and tear resulting from use; this is explained in a subsequent chapter under the subject of "Depreciation."

Should the written promise remain in possession of the business and errors develop which change the amount, credit might be allowed for these errors; but, if the business has sold the note, the holder will expect Mr. Atkin to pay the full amount. For the reasons stated, it is customary to record the amount of each written promise (note or acceptance) in which money is to be paid to the business, in a "Notes Receivable" account, and each written promise (note or acceptance) in which the business promises to pay money, in a "Notes Payable" account.

NOTES RECEIVABLE ACCOUNT

§ **102. The Purpose of this Account** is to show the amount due to the business as evidenced by written obligations; these include notes (§ 86) signed by others and time drafts (§ 92) accepted by others.

Debit the Notes Receivable Account:

¶ 1. For the face of each note or acceptance* owned by the business at the beginning, and for the face of each note or acceptance* received during the operations of the business.

Credit the Notes Receivable Account:

¶ 2. For the face of each note or acceptance* when collected, discounted†, or transferred. Partial payments are indicated as in § 27, ¶ 5.

¶ 3. *The Balance of the Notes Receivable Account* shows the value of the notes and acceptances belonging to the business as the result of transactions completed with notes and drafts receivable. It is shown on the Balance Sheet as a current asset, and is usually listed between "Cash" and "Accounts Receivable."

NOTES PAYABLE ACCOUNT

§ **103. The Purpose of this Account** is to show the amount owed by the business as evidenced by written obligations; these include notes (§ 86) signed by the business and time drafts (§ 92) accepted by the business.

Debit the Notes Payable Account:

¶ 1. For the face of each note or acceptance when paid. Partial payments are indicated as in § 28, ¶ 5.

Credit the Notes Payable Account:

¶ 2. For the face of each note or acceptance‡ owed by the business at the beginning, and for the face of each note signed or time draft accepted‡ by the business during its operations.

¶ 3. *The Balance of the Notes Payable Account* shows the value of the notes and acceptances owed by the business as the result of transactions completed with notes and drafts payable. It is shown on the Balance Sheet as a current liability, and is usually listed before "Accounts Payable."

§ **104. Interest** is the use of money. The premium paid or received for this use is also referred to as interest. To illustrate: A borrowed $100.00 from B on twelve months' time, and at the end of the year paid $106.00, the principal and the interest. A paid $6.00 for the use of the money borrowed, hence this amount is an interest cost to him; B received $6.00 for the use of the money loaned, hence this amount is interest earned for him.

*Trade acceptances are usually shown in an account with Trade Acceptances Receivable; this is discussed in a subsequent chapter.

†If notes and drafts discounted are credited to a Notes Receivable Discounted account, Notes Receivable is not credited until they are paid; this is discussed in a subsequent chapter.

‡Trade acceptances are usually shown in an account with Trade Acceptances Payable; this is discussed in a subsequent chapter.

¶ 1. *Discount* is interest paid in advance, that is, the one who borrows the money pays the lender the interest at the time the loan is made and not at its maturity. It is customary with many banks to deduct the interest from the face of notes received as evidence of loans; the borrower receives cash or credit in his pass book for the proceeds. The borrower may, if he desires, give the bank his check for the interest, in which case he receives credit for the face of the note.

To illustrate: A borrowed $500.00 from his bank, giving his note payable in ninety days from date, as evidence of the obligation. The bank charges him eight per cent interest. When he presents his note for credit, he will either receive credit for $490.00, or give the bank his check for $10.00 and receive credit for $500.00. In either case the $10.00 is regarded as interest. Interest paid in advance may be termed "discount," but it is better to consider all amounts paid for the use of money as "interest," whether the amounts are paid at the time the debt is created or at the time it is paid.

¶ 2. *Legal Rate.* To prevent unreasonable charges for the use of money, the various states have enacted laws fixing the rate that may be collected; this is termed the legal rate. Some states provide that a higher rate may be collected if mentioned in the contract; this is termed the contract rate. Both the legal and the contract rate are based on a fixed charge for one year; thus 6% indicates that $6.00 may be collected for each $100.00 for one year.

¶ 3. *Time.* The time is the number of days, months or years for which interest is to be calculated. In the case of a note the time is stated. A note dated March 10, due in 90 days, would be due June 8. The same note if payable in three months would be due June 10.

¶ 4. *Method of Calculating Interest.* A business year is regarded as 360 days—12 months, 30 days in each month. Since 6% is the legal rate in the majority of states, and it is an aliquot part of 60, there are many rules for calculating interest based on this. One of the simplest methods, especially where the time is less than 100 days, is as follows: multiply the principal with the decimal place moved three places to the left by the result obtained by dividing the number of days by six. The result is the interest at 6%.

To illustrate: Calculate the interest on $942.75, for 48 days, at six per cent. Move the decimal point three places to the left, multiply this amount by 8 (48 divided by 6). The result is 754,200. As there are five decimal places in the multiplicand, there must be five decimal places in the product, which gives the interest, $7.54. The fraction to the right of this is less than one-half, and is not used. If it had been one-half or more, the interest would have been $7.55. Do not drop the fraction until the final result is obtained.

When the rate of interest is not 6%, divide the amount of the interest at 6% by six; this gives the interest at 1%. Multiply this by the given rate, and the result is the interest on the given amount at the given rate. To illustrate: Calculate the interest on $368.95 for 48 days, at 8%: $368.95 with the decimal point moved three places to the left is .36895. $48 \div 6 = 8$; $.36895 \times 8 = 2.95160$ (interest at 6%). $2.95160 \div 6 = .49193$ (interest at 1%); $.49193 \times 8 = 3.93544$ or $3.94, interest on $368.95 for 48 days, at 8%.

§ 105. Accounts with Interest. Interest cost and interest earned should be recorded in separate accounts. While all the transactions with interest could be recorded in one account, debiting it with interest cost and crediting it with interest earned, yet it is better to keep two accounts because the balance of the one account would not mean anything to the owner of the business. Where the transactions with interest are recorded in two accounts, the information given the owner on the Statement of Profit and Loss will show the net interest cost to him separate from the net interest earned; if the transactions had all been recorded in one account, the balance would not show this information, but only the difference between the total interest cost and the total interest earned. For the reason stated it is customary to record interest transactions in which the business gives cash or other property for interest, in an account with "Interest Cost," and those transactions in which the business receives cash or other property for interest, in an account with "Interest Earned."

INTEREST COST ACCOUNT

§ 106. The Purpose of this Account is to show the cost of interest to the business, made necessary by the business having to pay for the use of money.

Debit the Interest Cost Account:

¶ 1. For interest on accounts and notes payable.* Cash is usually credited, but some other asset might be given in payment of interest.

Credit the Interest Cost Account:

¶ 2. For any deductions which reduce the cost of interest as shown by the debit side.

¶ 3. *The Balance of the Interest Cost Account* shows the net cost of interest to the business. It is shown on the Statement of Profit and Loss as Interest Cost under the caption "Deductions from Income."

INTEREST EARNED ACCOUNT

§ 107. The Purpose of this Account is to show the returns from interest to the business, resulting from others paying for the use of money which belongs to the business.

Debit the Interest Earned Account:

¶ 1. For any deductions which reduce the income from interest as shown by the credit side.

Credit the Interest Earned Account:

¶ 2. For interest income from accounts and notes receivable.† Cash is usually debited, but some other asset might be received for interest earned.

¶ 3. *The Balance of the Interest Earned Account* shows the net returns from interest to the business. It is shown on the Statement of Profit and Loss as Interest Earned under the caption "Other Income."

SUMMARY

§ 108. General Rule for Debits and Credits. Debit the account which represents the value received and credit the account which represents the value parted with. This rule may be more explicitly expressed as follows:

Debit the Account which represents:

(*a*) The cash received or property purchased.

(*b*) The person to whom cash is paid or property is sold on account.

(*c*) The service for which cash or other property is given in payment.

Credit the Account which represents:

(*d*) The cash paid or property sold.

(*e*) The person from whom cash is received or property is purchased on account.

(*f*) The service for which cash or other property is received.

The above rule was not given at the beginning because the student might have felt obligated to memorize it, and this is not desirable. It is given at this time in order that the student may correlate it with the preceding discussion and his knowledge of the principles gained from the exercises and practice set.

In the formula given, (a) applies to ¶1 under the discussion of the Cash, Purchases, Notes Receivable, and Furniture and Fixtures accounts; (b) to ¶1 under the discussion of the Accounts Payable and Accounts Receivable accounts,

(*Concluded on page 130.*)

*Accrued interest on accounts payable, notes payable, and bonds payable will be discussed later.

†Accrued interest on accounts receivable, notes receivable, and bonds owned by the business will be discussed later.

*

and to ¶ 2 of the Capital account; (c) to ¶1 of the Expense, Interest Cost, and Interest Earned accounts; (d) to ¶ 2 of the Cash, Sales, and Furniture and Fixtures accounts; (e) to ¶ 2 of the Accounts Receivable and Accounts Payable accounts, and to ¶ 4 of the Capital account; (f) to ¶ 2 of the Expense, Interest Cost and Interest Earned accounts.

The student should learn to record transactions with the same ease that the driver operates an automobile. He can do this only by constant practice. The purpose of the exercises in connection with the discussion and the practice set was to afford this practice. The first thought in the mind of the bookkeeper when a transaction is presented to him should be the value received and the value parted with; the second, the accounts that represent these values; the third, the book of account in which to make the record; and the fourth, the process of recording so as to show these facts.

OUTLINE OF ACCOUNTS

§ 109. The Outline below includes those accounts which have been discussed in the preceding chapters. These are classified as current assets, fixed assets, current liabilities, capital, income, operating, and special profits and losses.

Current Assets	Cash Merchandise Inventory Notes Receivable Accounts Receivable	Used in the preparation of the Balance Sheet
Fixed Assets	Furniture and Fixtures	
Current Liabilities	Notes Payable Accounts Payable	
Capital	Proprietor, Capital	
Trading (Income)	Sales Purchases Merchandise Inventory	Used in the preparation of the Statement of Profit and Loss
Operating (Cost)	Expense	
Special Profit and Loss	Interest Earned Interest Cost	

Current Assets are those assets which are in the form of cash or which will be converted into cash in the regular operations of the business; they are usually the result of transactions in connection with the purchase and sale of the commodities in which the business deals.

Fixed Assets refer to the property purchased for use in the business.

Current Liabilities are those liabilities which will have to be paid within a short time after they are incurred; they usually represent debts incurred in connection with the purchase of merchandise.

Capital refers to the investment of the proprietor.

Trading or Income Accounts are those accounts which show the profit resulting from the operations of the business. Each business is organized to make a profit through certain specific operations, as selling merchandise (mercantile business), selling service (telephone business), etc.

Operating Expenses refer to the cost of operating the business, which includes rent, heat, light, telephone service, salaries, etc.

Special Profits and Losses refer to those profits and losses which occur outside of the regular operations of the business and may occur in one fiscal period but not in another.

Exercise No. 50, Notes and Drafts.

Record in journal form the following transactions in regard to notes and drafts completed during the months of January—June by James Whitcomb, a dealer in farm implements:

Jan. 5. Sold Jonathan Rigden, Centerville, one tractor, $850.00. Received in payment his check for $250.00 and three notes for $200.00 each, due in three, six, and nine months respectively, with interest at 6% from date.

10. Purchased from the Orrville Mfg. Co., Mansfield, on 90 days' time, merchandise per purchase invoice dated January 7, $1,295.60.

15. Sold Robert Shook, Scottsboro, on 30 days' time, farm implements per sales invoice rendered, $425.00.

22. Accepted the Orrville Mfg. Co.'s 90-day draft for $1,000.00 on account of purchase of the 10th.

25. Borrowed $800.00 from the bank on Mr. Whitcomb's 60-day note, bearing interest at 6%. Received credit in the pass book for the face of the note.

31. Sold S. W. Walker, Clinton, on 30 days' time, farm implements per sales invoice rendered, $209.75.

Feb. 1. Discounted at the bank the three-months note received from Jonathan Rigden January 5. Received credit in the pass book for the face of the note.

14. Received from Robert Shook in settlement for the merchandise sold him January 15, his note for $300.00, due in three months, with interest, and his check for the balance of the account plus three months' interest on the note at 8%.

28. Sold W. H. Miller, City, one tractor, $1,050.00. Received in payment his check for $150.00 and three notes for $300.00 each, due in three, six, and nine months respectively, with interest at 6% from date.

Mar. 8. Drew a 30-day draft through the Union Bank at Clinton on S. W. Walker for the merchandise sold him January 31. Sent the draft to the bank for acceptance, with instructions to retain it for collection if accepted.

15. Discounted at the bank the three- and six-months notes received from W. H. Miller February 28. Received credit in the pass book for $588.00, the proceeds of these notes after the bank deducted interest.

16. Received notice from the Union Bank at Clinton that the draft drawn on S. W. Walker March 8 was accepted March 11, and the bank would hold the draft for collection at maturity per our instructions.

24. Gave the bank in payment for the note discounted January 25 a new 60-day note for $500.00, with interest from date, and our check for the balance of the old note and interest on same at 6% for sixty days.

25. Purchased from the Orrville Mfg. Co., Mansfield, on 90 days' time, merchandise per purchase invoice dated March 20, $2,546.52.

April 1. Received from Jonathan Rigden a check for $203.00 in payment for his three-months note given January 5 and interest, the bank having failed to send him a notice.

3. Sold M. B. Adams, Uniontown, one thresher with full equipment, $1,500.00. Received in payment $500.00 cash, a 60-day note for $500.00, and a 90-day note for $500.00, each with interest at 6%.

14. Received a cashier's check from the Union Bank at Clinton for $208.50 in payment for the draft accepted by S. W. Walker, less $1.25, their charges for collection.

Apr. 20. Gave our bank a check for $498.58 and the 60-day note received from M. B. Adams April 3, in settlement for the 90-day draft drawn by the Orrville Mfg. Co. and accepted by us January 22; the bank accepted the Adams note at its present value, $501.42 (face value, $500.00, plus interest to date, $1.42).

25. Received a check from W. H. Miller in payment for the nine-months note received February 28, for the face of the note and interest from the date of the note up to and including April 24.

May 1. Gave the Orrville Mfg. Co. the 90-day note received from M. B. Adams April 3, our note for $1,000.00 due in ninety days, our note for $1,000.00 due in four months, and our check for $374.79 in payment for balance due on the purchase invoice of January 10 and in full of purchase invoice of March 25, and interest on our notes at 6% from date; the Orrville Mfg. Co. accepted the Adams note at its present value, $502.33 (face value, $500.00, plus interest to date, $2.33).

10. Sold C. H. Becker, Lexington, one thresher and outfit, $1,800.00. Received in payment his check for $300.00, and three notes for $500.00 each, due in 30, 60, and 90 days respectively, with interest at 6%.

15. Purchased from the Orrville Mfg. Co., Mansfield, on 90 days' time, merchandise per purchase invoice dated May 12, $1,365.90.

18. Sold Robert Shook, Scottsboro, one tractor, $850.00. Received on account of this sale his check for $150.00 and a note for $600.00 in his favor, signed by B. A. Small, dated March 7 and payable in ninety days. Allowed him credit for the proceeds of the note, which include the face and interest at 6% from the date of the note to May 18. The balance of this account is to be paid within thirty days.

June 1. The bank notified us that the three-months note for $300.00 received from W. H. Miller February 28 and later discounted, has not been paid. Gave the bank our check for $4.50 interest and our note for $300.00, with interest at 6% from date, payable in thirty days.

Debit the account with W. H. Miller for the face of the note plus the interest, and credit Notes Payable and Cash.

3. Received from Robert Shook a 3-months note for $200.00, dated June 2, and a check for $104.00 in payment for 3-months note dated February 14, and interest on the new note at 8% from date to maturity.

12. Received from C. H. Becker his check for $502.50 in payment for 30-day note dated May 10 and interest at 6% on the same from date of the note up to and including June 9.

Exercise No. 51, Sight Draft.

Dean & Dean

Salt Lake City, Utah

19—				192					
June	1		561 80	May	1	30 days	P.1	561	80
July	15		300	June	15	30 "	P.2	894	20
Aug	1		200	Aug.	5	30 "	P.4	647	50
	15		374 20	Sept.	9	30 "	P.5	439	40
Sept	4		200	Oct.	16	30 "	P.6	758	65

John C. Franklin of Scranton, Pa., owes Dean & Dean of Salt Lake City as shown by the account (in the ledger of John C. Franklin) in the illustration above. Dean & Dean have drawn the draft at the top of page 133 in settlement

of the past due items of August 5 and September 9, with interest at 6% from the due date up to and including the date of the draft.

$892.91 Salt Lake City, Utah, Nov. 1, 192

At sight Pay to

the order of Union Nat'l Bank, Scranton,

Eight Hundred Ninety-two 91/100 Dollars

Value received and charge the same to account of

To John C. Franklin
No. 34 Address Scranton, Pa.

Dean & Dean
By C. Ernst

The student is required to show the following:

(1) Interest calculations made to approve the amount of the draft.

(2) The entry in journal form that the drawee would make when he paid the draft.

Exercise No. 52, Note Transferred.

Charles Langan, Cincinnati, O.

192						192					
Mar.	2	10 days	J. 1	42	60	Mar.	17		J. 2	42	60
Apr.	5	15 "	J. 3	85	90	Apr.	20		J. —	85	90
	28	15 "	J. 4	a 66	19	May	13		J. 6	a 50	
May	8	15 "	J. 5	b 149	21		23		J. 6	b 50	
June	5	15 "	J. 7	204	30						
July	2	15 "	J. 9	28	30						

The check in the illustration below and the note at the top of page 134 were received in full payment for the account shown in the illustration above. The customer pays interest on the past-due items from their due date to the date of settlement as shown by the date of the check; he is allowed the accrued interest in the note from date up to and including the date of settlement.

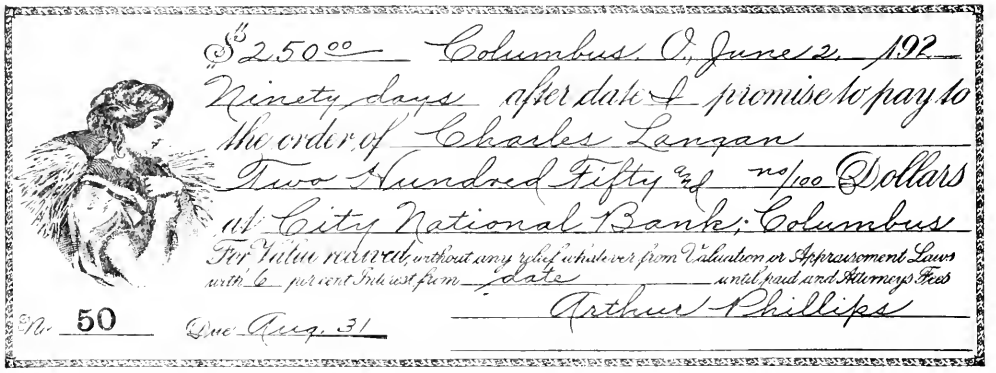
Cincinnati, August 1, 192 No. 480

The Central Trust Company 43-39

Pay to the order of John C. Franklin $98.38

Ninety-eight and 38/100 Dollars

In full of account Charles Langan


$250.00 Columbus, O., June 2, 192
Ninety days after date I promise to pay to
the order of Charles Langan
Two Hundred Fifty and no/100 Dollars
at City National Bank, Columbus
For Value received, without any relief whatsoever from Valuation or Appraisement Laws
with 6 per cent Int. from date until paid and Attorney's Fees
Arthur Phillips
No. 50 Due Aug. 31

The student is required to show the following:

(1) Interest calculations made to approve the amount of the check.

(2) Endorsement to transfer the note.

(3) The entry in journal form required to close the account and show a record of the interest and note.

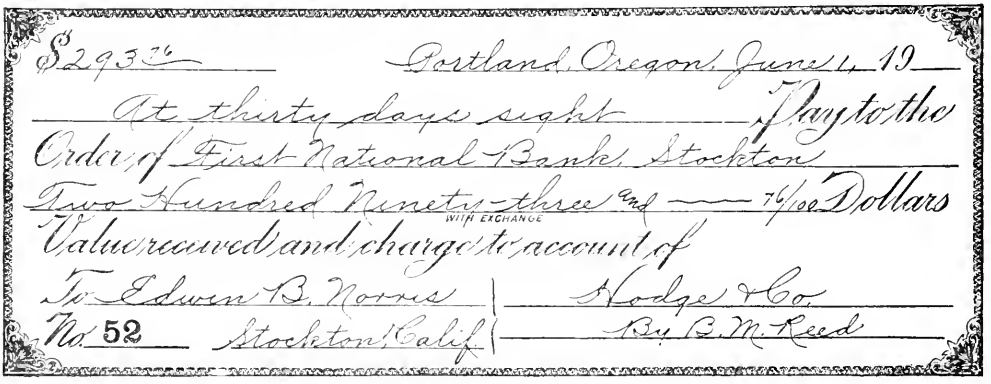
Exercise No. 53, Time Draft.

Edwin B. Norris

Stockton, Calif.

192						192				
Mar.	5	90 days	32	261	50	May	1		66	a200
	10	60 "	25	a692	30		15		66	a200
Apr.	15	60 "	23	309	15					

The draft in the illustration below was drawn in settlement for the balance of the sale made March 10 as shown by the debit to the account with the customer in the illustration above. Interest at 6% for thirty days on the balance due was included in the face of the draft.


$293.76 Portland, Oregon, June 4, 19
At thirty days sight Pay to the
Order of First National Bank, Stockton
Two Hundred Ninety-three and 76/100 Dollars
WITH EXCHANGE
Value received and charge to account of
To Edwin B. Norris
No. 52 Stockton, Calif.
Hodge & Co
By B. M. Reed

The student is required to show the following:

(1) Interest calculations made by the bookkeeper when he ascertains the amount of the draft.

(*Concluded on page 135.*)

(2) The stub from which the draft was detached.
(3) The entry in journal form made by the bookkeeper who drew the draft.

Exercise No. 54, Sight Draft, Note, and Check.

The illustration below shows three ledger accounts which appear in the ledger of the Cochran Mfg. Co., Toledo, Ohio:

Auto Radiator Repair Co

192							192					
Jan.	7	30 days	J. 1	264	95		Jan.	10		C. 2	150	
	12	30 "	J. 4	117	38			16		C. 2	100	
Feb.	16	30 "	J. 9	98	56		Feb.	1		C. 4	50	
	28	30 "	J. 12	365	40		Mar.	1		C. 6	150	
Mar.	15	30 "	J. 16	275	36		Apr.	1		C. 1	100	

A. Strange & Co *Jackson, Ohio*

192							192					
July	18		C. 3	416	40		May	19	60 days	P. 1	416	40
Sept.	1		C. 7	150			June	17	30 "	P. 4	211	85
Oct.	1		C. 9	200				22	60 "	P. 5	562	90
Nov.	1		C. 11	200			July	17	60 "	P. 1	375	50
Dec.	1		C. 13	300			Aug.	29	30 "	P. 7	459	65

The R. H. Donnelley Company *City*

192							192					
Jan.	9	30 days	J. 2	416	21		Feb.	8		C. 5	200	
	31	30 "	J. 7	509	27		Mar.	1		C. 7	300	
Feb.	12	60 "	J. 14	391	90		Apr.	1		C. 9	200	
Mar.	9	60 "	J. 31	478	62		May	1		C. 11	500	
Apr.	11	30 "	J. 49	629	50		June	1		C. 13	400	
	29	60 "	J. 54	418	50							

$1000.00 Toledo, Ohio, MAY 1-192 191

Six months after date I promise to pay to the order of The R. H. Donnelley Company

One Thousand and no/100 Dollars

at Second National Bank

Value received with 6% interest from date.

No. 4 Due NOV 1-192 W. B. Mattingly

(Concluded on page 136.)

The following is required:

(1) Draw at sight on the Auto Radiator Repair Co. for the balance due June 1st, including interest on all past due items, less interest on the payments up to and including the date of the draft. Make the draft payable to one of the banks in the city in which the school is located, it being assumed that this city is the address of the Auto Radiator Repair Co.

(a) Show in journal form the entry made by the bookkeeper for the Cochran Mfg. Co. to record the draft and interest.

(2) Prepare a sixty-day interest-bearing note in favor of A. Strange & Co., payable at the Jackson National Bank, for the balance due January 1, including interest on all purchases from the due date up to and including January 1, and allowing interest on all payments from date up to and including January 1.

(a) Show in journal form the entry made by the bookkeeper for the Cochran Mfg. Co. to record the note and interest.

(3) July 1 R. H. Donnelley of the R. H. Donnelley Company wishes to transfer the note shown below their ledger account, and give the company's check in settlement for the account. He is to pay interest on each past-due item and to be allowed interest on each payment from date up to and including July 1, also to be allowed credit for the accrued interest in the note.

(a) Write the check for Mr. Donnelley to sign.

(b) Show the calculations necessary to ascertain the amount of the check.

(c) Show in journal form the entry necessary to close the account and to record the value of the note and interest.

Exercise No. 55, Journal Entries, Notes and Drafts.

Journalize the following transactions using the numbers as the days of the current month, and present the work to the teacher for approval.

1. Gave Simpson Bros. our sixty-day note, dated today, for $250.00, to apply on account.

2. John Howard gave us his thirty-day note, dated today, for $128.36, in full of account.

3. Sold James Morgan, on his note for thirty days, 200 bu. oats at 49 cents.

4. Received $150.00 from A. C. Williams, in payment of his note due today.

5. Accepted Martin Bros.' ten-day draft for $329.86, in part payment of account.

6. Received $286.48 from M. J. Thompson, on his note, due today.

7. Bought from the Hall Safe & Lock Co., for $200.00, one fireproof safe, and gave in payment check for $50.00, and our note due in sixty days, for $150.00.

8. Drew a ten-day draft on A. C. Weaver for $150.00, the balance he owes us, and sent the draft to Arnold Bros., to apply on account we owe them. Mr. Weaver has accepted the draft.

Transactions of this nature are not fair to the creditor, but when they occur, the one who draws the draft (drawer) debits the account with the creditor to whom the draft is given (payee), and credits the account with the customer on whom it is drawn (drawee), if the draft is accepted or paid. The drawee debits the account with the drawer, and credits the Notes Payable account if he accepts the (time) draft or the Cash account if he pays the (sight) draft. The payee debits the Notes Receivable account if the (time) draft is accepted or the Cash account if the (sight) draft is paid, and credits the account with the drawer.

9. Bought from Payne & Hart, merchandise per invoice of this date, $869.48. Gave in payment our ninety-day note, dated today.

10. James Milligan gave us his note for $125.00, due in thirty days from today to apply on account.

11. Received from R. M. Upman, a ten-day draft on Hall Bros., for $150.00, to apply on an account Upman owes us. Hall Bros. have accepted the draft.

12. Purchased from Remington Typewriter Co., one No. 11 Remington typewriter, for $100.00. Gave in payment our check for $25.00, and three notes for $25.00 each, due in thirty, sixty and ninety days.

This transaction requires an entry with one debit and four credits—one for the cash paid and one for each note.

13. Drew a ten-day draft on Yeager Bros. for $354.81, the amount they owe us, and sent it to Dawson & Perry to apply on account. (See instructions in No. 8.)

14. J. J. Darling gave us his note for $175.00 due in sixty days from today, and his check for $86.14, in full of account he owes us.

15. Bought from the Consolidated Milling Company, merchandise per invoice of this date, $689.28. Gave in payment a note which we hold (Notes Receivable) for $127.65, our note due in thirty days for $400.00, and our check for the balance.

16. Borrowed $400.00 from the bank on our thirty-day interest-bearing note for this amount.

17. Accepted Marblehead & Co.'s draft at ten days for $681.29, in full of account.

18. Paid Donaldson Bros. $250.00 in payment of a note which is due today.

19. Our note for $500.00 is due at the bank today. Gave them a check for $250.00, and a new note with interest for $250.00 in settlement of this.

20. Accepted Martin Bros.' ten-day draft for $150.00, to apply on account.

21. Paid our note for $200.00 due today.

22. Our note for $800.00, in favor of Stillman Bros., is due today. We have settled the same by giving them our check for $300.00, and two interest-bearing notes for $250.00 each, due in thirty and sixty days, respectively.

23. Robert Davis owes us a note for $627.65, which is due today. He settles the same by giving us his note for $300.00, a note that has been transferred to him for $127.65 which we owe, and his check for the difference.

24. A. L. Day owes us $582.65. He settles the account as follows: his thirty-day note for $250.00, our note for $210.00 (Notes Payable) which he holds, and his check for $122.65.

25. We owe Anderson Bros. $427.55. They accept our check for $127.55, and three notes of equal amount dated today, due in thirty, sixty and ninety days, in full of account.

RADIO SET

This is a practice set without vouchers, and consists of the transactions for a period of two months performed by Robert A. McFarland who is engaged in the radio supply business. The transactions are separate from the text and are included with the books of account necessary to record them. The purpose of this set is to provide a review of the principles discussed in the text and in the W. H. Goodwin practice set. The student will follow the teacher's instructions in regard to the completion of this set.

QUESTIONS

1. Under what conditions would the cost of a desk be debited to the Purchases account?
2. Under what conditions would the cost of a desk be debited to the Furniture and Fixtures account?
3. W. H. Banks, owner of Banks' Drug Store, rented a typewriter on January 1 for one year at a rental of $3.00 per month. What accounts would his bookkeeper debit and credit when the monthly rent was paid?
4. January 1 of the next year Mr. Banks purchased a new typewriter for $100.00 cash, and on December 31 of the same year he sold it for $75.00 cash. (a) What accounts would his bookkeeper debit and credit when the typewriter was purchased? (b) What accounts would his bookkeeper debit and credit when the typewriter was sold?
5. How much did Mr. Banks save by owning his own typewriter?
6. If he had not sold the typewriter December 31, should he have considered it still worth $100.00?
7. If he wished to show that it had decreased in value, could you suggest a means of doing this?
8. Why should the credit to the Furniture and Fixtures account show cost and not selling price?
9. If a desk which has been purchased for sale is transferred from stock for use in the office, what accounts will be debited and credited?
10. Would an automobile truck used for delivering merchandise sold be regarded as one of the fixed assets of the business?
11. If the business buys a safe for $400.00 and pays freight $50.00, will the cost of the safe shown in the Furniture and Fixtures account be the cost of the safe at the factory or this cost plus the freight?
12. If fixtures belonging to the business are destroyed by fire, will the insurance be adjusted on the cost value of the same or the present value?
13. What is the legal rate of interest in your home state?
14. Does the law of your state permit the collection of a rate higher than the legal rate?
15. Explain the difference between interest and discount.
16. In what respect does the Interest Cost account resemble the Expense account as they both relate to the operations of the business?
17. When is interest a cost to the business?
18. When is interest an income to the business?
19. Why does the law limit the income from interest when it does not limit the income from the operations of a business?
20. If a customer owes the business $500.00 which is due, and gives his note for this amount, due in ninety days, should he be required to pay interest? Why?
21. (a) What is the due date of a note dated May 9 and payable ninety days after date? (b) What is the due date of a note dated May 9 and payable three months after date?
22. Why is the interest on a note for $169.27 for sixty days at 6%, $1.69?
23. Explain the difference between current assets and fixed assets and the reason for this difference.
24. Explain the difference between the profit on merchandise sold in a mercantile business, and the profit resulting from interest earned.
25. What is the first thought of a bookkeeper when a business form representing a transaction is given to him? the second thought? the third? the fourth?

Part Two—Partnership

Chapter XIII

THE PARTNERSHIP CONTRACT AND ACCOUNTS WITH PARTNERS

§ **110. Introduction.** The purpose of the discussion in this division is to give the student further information in regard to the principles of accounting in connection with the recording of transactions, and practice through the exercises in applying these principles. Two practice sets, separate from the text, accompany this division. While the title of the division is "Partnership" and the business in each of the practice sets is conducted by partners, yet the principles discussed and illustrated may be applied to a business owned and operated by an individual. This chapter contains a discussion of the partnership and the accounts necessary to record the transactions with the partners.

§ **111. Accounting** is the science which treats of the proper recording, classification, presentation, and interpretation of the financial facts relating to a business enterprise. Bookkeeping is that part of accounting which relates to the recording of business transactions. It is difficult to determine just where bookkeeping ends and accounting begins, because the transactions should be classified as they are recorded if the proper analysis is to be made from the reports prepared at the close of the fiscal period.

In the preceding chapters no attempt was made to consider the classification of transactions and the analysis of reports. Now that the student understands the method of recording transactions and preparing reports, he can better appreciate the reason for classification and analysis. A course in bookkeeping without a discussion of classification and analysis would not be fair to the student because he would be handicapped in his work as a bookkeeper, and as a manager of his own business he could not interpret the information which would come to him from the accounting department.

§ **112. A Partnership** is the relation existing between two or more persons who have associated their time, labor, skill and capital in some business enterprise for their joint profit. The partners are the persons who have entered into the agreement to form a partnership.

§ **113. The Purpose of Forming a Partnership** is the mutual benefit of all interested. The qualifications and natural ability of each person differ widely. One person seldom possesses all the essential requirements for an ideal business man; for this reason, the association of two or more partners is often very desirable. A mercantile business owned and operated by a shrewd buyer, a good salesman, and an efficient collector as partners will be sure of success if the three partners are congenial. While the necessary capital for conducting the business is usually the

chief incentive to the formation of a partnership, yet the natural ability and integrity of each partner should always be considered, especially if each is to take an active part in the management of the business.

James Brown operates a garage for storage. Robert Davis is salesman for a local automobile concern. Frank Jones is an expert auto repair mechanic. These three men form a partnership for the purpose of operating a garage, selling passenger cars, and conducting a repair shop. If the partners work together and there is no discord, the business should be a success.

§ **114. The Capital of a Partnership** consists of (a) assets invested at the beginning of business, and (b) subsequent investments. The net assets of the partnership are the total assets less the liabilities; these net assets do not belong to any one partner either as a whole or in part, but belong to all of them in common. The capital of a partnership is the same as the capital of a business owned by an individual, except that the net capital of the individual business belongs to the owner, while the net capital of the partnership belongs to the partners, but neither is permitted to withdraw his share without the consent of the others.

A. L. Day owns and operates a grocery business. He decides to discontinue the business and dispose of the assets at auction. After paying his liabilities, he can use the remainder of his assets in any way which he desires. O. L. Garber and C. N. Simpson operate a hardware business as partners. Mr. Garber wishes to retire, but Mr. Simpson does not want him to do so. If Mr. Garber insists upon retiring, he will be responsible to Mr. Simpson for any damage caused by his action. If the two partners cannot agree upon some plan of action, it will be necessary to ask a court of equity to appoint a receiver to sell the assets, pay the liabilities, and, after the liabilities are paid, divide the remainder of the assets between the partners.

§ **115. The Articles of Copartnership** is the contract entered into between the partners at the beginning of the business and must conform to the laws of the state in which the partnership business is located. The agreement between the partners should be in writing and signed by each partner. It should contain the following information:

(1) The date, and time the partnership is to continue.
(2) The name of each partner and the firm name under which the business will be operated.
(3) The amount invested by each partner.
(4) The city and state in which the business is to be located.
(5) The nature of the business.
(6) The duties of each partner.
(7) The compensation each partner is to receive for his services.
(8) The division of the profits.
(9) Any special conditions that may be agreed upon by the partners.

Illustration No. 69 shows the partnership agreement between C. W. Keeland and A. D. Munson, partners in a retail hay, grain, feed and coal business.

§ **116. The Relation Between the Partners** is such that neither partner should take action in important cases without consulting the other partners. The individual owner of a business may operate the business without consulting any one as he alone is responsible for its operations, but each partner in a partnership is responsible to the other partners, hence should consult them even though, according to the agreement, it might not be necessary for him to do so. The success of a partnership can be assured only with the full cooperation of all the members, and this cooperation can be best effected when the partners are in accord on all business transactions of any importance.

No matter how well qualified the partners may be, unless their relations are agreeable the business cannot be a success. In the case of Garber and Simpson in the illustration under § 114, it is possible that each was well qualified to perform the duties under the Articles of Copartnership, but the fact that one of them wanted to sell might indicate that their relations were not satisfactory.

ARTICLES OF COPARTNERSHIP

This Contract, *Made and entered into on the* second *day of* April *19* *by and between* C. W. Keeland of Cincinnati, Ohio, party of the first part, and A. D. Munson of Cincinnati, Ohio, party of the second part,

WITNESSETH: That the said parties have this day formed a copartnership for the purpose of engaging in and conducting a retail hay, grain, feed and coal *business under the following stipulations which are made a part of this contract:*

FIRST: The said copartnership is to continue for a term of three years *from date hereof.*

SECOND: The business shall be conducted under the firm name of C. W. Keeland & Co.

THIRD: The investments are as follows: C. W. Keeland: assets as shown by the Balance Sheet of his business, prepared March 31; the partnership assumes the liabilities shown by this Balance Sheet.
A. D. Munson, cash, Five Thousand Dollars ($5,000.00).

FOURTH: All profits or losses arising from said business are to be shared as follows:
C. W. Keeland, one-half; A. D. Munson, one-half

FIFTH: A systematic record of all transactions is to be kept in a double entry set of books, which are to be open for the inspection of each partner. On the last day of June and Dec. *hereafter a statement of the business is to be made, the books closed and each partner credited with the amount of the gain. A statement may be made at such other time as the partners agree upon.*

SIXTH: Each partner is to devote his entire time and attention to the business and to engage in no other business enterprise without the written consent of the other.

SEVENTH: Each partner is to have a salary of $ 200.00 *per month, the same to be withdrawn at such time or times as he may elect. Neither partner is to withdraw from the business an amount in excess of his salary without the written consent of the other.*

EIGHTH: The duties of each partner are defined as follows: C. W. Keeland is to have general supervision of the business and act as purchasing agent and credit man; A. D. Munson is to act as sales manager.

NINTH: Neither partner is to become surety or bondsman for anyone without the written consent of the other.

IN WITNESS WHEREOF, The parties aforesaid have hereunto set their hands and affixed their seals on the day and year above written.

C. W. Keeland
A. D. Munson

Illustration No. 69, Articles of Copartnership.

EXPLANATION. This contract is the partnership agreement between C. W. Keeland and A. D. Munson. It includes all the conditions mentioned in § 115 and a special condition in which the partners agree not to become surety for another during the term of the contract.

§ 117. **Method of Forming a Partnership.** A partnership is formed by the partners signing the Articles of Copartnership. Each partner is expected to invest the property mentioned in the agreement. One copy of the agreement should be kept on file in the office, and if desired, a synopsis of it may be made in the general journal. The business to be operated by the partners may be a continuation of a business which has been in operation by one or more of the partners, or it may be a new business. The capital of the partnership at the beginning consists of the property invested by the individual partners, less any liabilities that may be assumed.

§ 118. **Admission of a Partner.** A partner may be admitted into a going concern at any time, but it must be upon the agreement of all the partners. If the amount of his investment is not dependent on the present worth of the business, it is not necessary to prepare a Balance Sheet and a Statement of Profit and Loss nor to close the ledger. However, it is better to ascertain the present condition of the business through these reports because the new partner will be better satisfied with his investment if he has full information in regard to the past operations of the business and its present financial condition. The admission of a partner cancels the copartnership agreement of the former partners and requires the preparation of new Articles of Copartnership to be signed by all the members.

§ 119. **Retirement of a Partner.** One or more of the members in a partnership may retire at any time upon consent of all the partners. One partner might retire without the consent of all the others, but such action would cause him to be responsible to the other partners for any loss resulting therefrom. When the value of the retiring partner's interest in the business can be determined without the preparation of the Balance Sheet and Statement of Profit and Loss, these reports are not necessary Since the retirement of a partner cancels the Articles of Copartnership and requires a new agreement, it is customary to prepare the Balance Sheet and Statement of Profit and Loss and close the ledger so that the new agreement may begin a fiscal period.

§ 120. **Income Tax for a Partnership.** The income of each business operated as a partnership is subject to the Federal Income Tax; however, the tax is not paid by the partnership as such, but by the partners individually. Quoting from Section 218 of the Revenue Act of 1921. "Individuals carrying on a business in partnership shall be liable for income tax only in their individual capacity;" and quoting from Section 224 of the same act: "Every partnership shall make a return for each taxable year, stating specifically the items of its gross income and the deductions allowed by this title, and shall include in the return the names and addresses of the individuals who would be entitled to share in the net income if distributed and the amount of the distributive share of each individual The return shall be sworn to by any one of the partners." See Appendix C.

§ 121. **Accounts Peculiar to a Partnership.** The accounts required to show the results of the operations of a partnership may be the same as those needed to show the results of the operations of a similar business owned by an individual except that a separate Capital account will be required for each partner. The nature of each of these Capital accounts will be the same as that of the one Capital account for a business owned and operated by a sole proprietor, as explained in § 34. Transactions affecting the compensation of partners as per the Articles of Copartnership and that part of the profit to be withdrawn should be recorded in an account separate from the one showing the investment and withdrawals from the investment. For this reason it is customary to have two accounts with each partner, a Capital account and a Personal or Drawing account.

PARTNER'S CAPITAL ACCOUNT

§ 122. **The Purpose of this Account** is to show the investments and withdrawals of the partner, also his share of the net loss or net profit resulting from the

operations of the business. The nature of the account is the same as that of the Capital account of an individual as explained in § 34.

Debit the Partner's Capital Account:

¶ 1. For debts owed by him at the beginning of business and assumed by the partnership.
¶ 2. For amounts withdrawn from the capital invested.
¶ 3. For his share of the net loss.

Credit the Partner's Capital Account:

¶ 4. For his investment at the beginning of the partnership.
¶ 5. For all subsequent investments.
¶ 6. For his share of the net profit which is to remain in the business.

¶ 7. *The Balance of the Partner's Capital Account* during the fiscal period shows his net investment, and, at the end of the fiscal period after the ledger is closed, his proprietorship in the partnership. The sum of the proprietorship of all the partners is the proprietorship or net capital of the partnership. The net investment of each partner is shown on the Balance Sheet (Illustration No. 92) in the same manner as the investment of an individual as explained in § 34.

PARTNER'S PERSONAL ACCOUNT

§ 123. The Purpose of this Account is to show a record of those transactions with the partner which do not affect his Capital account. These include withdrawals from salary or that part of the profit set aside for withdrawal; also special transactions, such as temporary loans to the partnership on open account, cash advanced to the partner for traveling expenses, etc.

Debit the Partner's Personal Account:

¶ 1. For cash paid him by the partnership for (a) salary as per Articles of Copartnership and (b) profit withdrawn.
¶ 2. For merchandise which he takes out of stock to apply on (a) salary or (b) profit withdrawn.
¶ 3. For cash paid to him to be used by him for the business.

Credit the Partner's Personal Account:

¶ 4. For his salary as per Articles of Copartnership.
¶ 5. For cash paid by him out of funds advanced to him (¶ 3) or paid out of his private funds in the interests of the business.
¶ 6. For that part of the profit which the partners have agreed may be withdrawn.

¶ 7. *The Balance of a Partner's Personal Account*, if a debit, shows the amount he owes the partnership for overdraft on account of salary or profits to be withdrawn; if a credit, the amount due him by the partnership on account of salary or profits to be withdrawn.

As a rule, the Personal account of each partner will be in balance at the close of the fiscal period. If, for any reason, a Personal account remains open, the balance, if a debit, is shown on the Balance Sheet as a deduction from the balance of his Capital account; if a credit, as an addition to the balance of his Capital account.

§ 124. Opening Entries for a Partnership. When a partnership has been formed by the partners signing the Articles of Copartnership, the cash or other assets invested by each partner become the property of the partnership, and should be recorded as such in the books of account; each asset invested is recorded on the debit side of an account and each partner's investment is recorded on the credit side of his Capital account. When the partnership is formed to continue the operation of a going business or to combine one or more going businesses, it is customary for the partnership to assume the liabilities of the business or businesses to be operated by it. This means that the sole proprietor or partners who own the going business will be credited for the value of the assets belonging to the business and debited for the liabilities which the partnership assumes.

October 1 James Brown and Robert Duncan form a partnership for the purpose of operating a retail grocery business which has been owned and operated by James Brown as a sole proprietor. It is agreed that James Brown is to have credit for the value of his assets as shown by the Balance Sheet, and is to be debited with the liabilities shown by the same report. Robert Duncan is to invest $2,000.00 in cash. The value of the assets belonging to James Brown are as follows: cash, $1,200.00; merchandise, $1,356.50; accounts receivable, $935.60; notes receivable $300.00. The liabilities are accounts payable, $1,345.90, and notes payable, $1,000.00. The cash invested by Brown and Duncan would be entered on the receipts side of the cash book in the same form as the cash investment shown by the first entry in the cash book for the Model Set (Chapter VI). The other assets invested by James Brown and his liabilities assumed would be recorded in the general journal as in the illustration above. If desired, this entry might be preceded by a synopsis of the partnership agreement as explained in § 117.

October 1, 19--

Notes Receivable	300			
Accounts Receivable	935	60		
Mdse Inventory	1356	50		
James Brown, Capital			2592	10
To record assets other than cash invested by James Brown				
James Brown, Capital	2345	90		
Notes Payable			1000	
Accounts Payable			1345	90
To record liabilities of James Brown assumed by partnership				

§ 125. Entries for the Admission or Withdrawal of a Partner. When a partner is admitted, the entry for the assets invested by him is the same as the entry for the investment of a partner at the beginning of a business. Thus, if the new partner invests cash, the entry will be made on the receipts side of the cash book; if he invests merchandise, notes, personal accounts, or other assets, the entry will be made in the general journal. If the partnership assumes debts owed by the new partner, his Capital account will be debited with these in the same manner as if the liabilities were assumed at the beginning of a business.

When a partner withdraws from the business, it is necessary to close his Capital account by debiting it and crediting Cash or the account which shows the asset accepted by the retiring partner in settlement for his interest in the business. If the partnership does not pay the retiring partner the full amount agreed upon, the balance due him is a liability. If this balance owed the retiring partner is evidenced by a written agreement, it will be recorded in the Notes Payable account; if by a verbal agreement, it will be recorded as an account payable. If the amount which the retiring partner accepts for his interest in the business does not balance his Capital account, this account should be closed into a special account, the balance of which will represent the profit or loss to the partnership because of the withdrawal.

Exercise No. 56, Articles of Copartnership and Opening Entry.

W. L. Westbrook owns and operates a garage for the purpose of storing cars. He wishes to add a repair department and to act as selling agent for passenger cars. In order that he may secure the needed capital and assistance in the operations of the business, he forms a partnership, on January 1, with W. W. Woodward, an experienced salesman, and C. H. Armstrong, an expert mechanic. The partnership is to continue for three years, and the business is to be operated under the name of the Central Garage.

W. L. Westbrook invests the building in which the garage is operated, valued at $4,500.00; the lot on which the building is located, $1,500,00; accounts receivable due from those who have space rented in the garage, $753.50; and cash, $500.00. He owes the Citizen's Bank and Trust Company a note for $2,500.00, which the partnership assumes.

W. W. Woodward invests a demonstration car which he owns, valued at $1,500.00; two new cars which he has purchased for sale, valued at $1,750.00 each; a note for $530.50, signed by A. W. Miller; and cash, $1,223.00. He owes the First National Bank a note for $2,000.00 which the partnership assumes.

C. H. Armstrong invests machinery and tools, valued at $2,500.00, which he has been using in a shop operated by himself; and cash, $1,000.00. He owes L. I. Milford an account of $500.00 which the partnership assumes.

Mr. Westbrook will have charge of the office and the general operations of the business; Mr. Woodward will devote his time to the sales of automobiles; and Mr. Armstrong will have charge of the repair department. Each partner is to receive a salary of $200.00 per month. The profits are to be divided as follows: Mr. Westbrook and Mr. Woodward, each three-eighths; Mr. Armstrong, one-fourth. No partner is to become surety for any one during the time of the partnership, nor engage in any other business.

Prepare (1) the Articles of Copartnership and (2) the opening entries in the journal (including a synopsis of the agreement) and cash book, for the assets and liabilities invested by each partner. The value of the building is to be recorded in a Building account, and that of the lot, in a Land account; the student will select titles for the accounts to record the other assets and the liabilities (§ 4).

Exercise No. 57, Admission of a Partner, and Transfer of Net Profit to Partners' Capital Accounts.

First Division. July 1 Robert MacFarland, one of the salesmen employed by the Central Garage (Exercise No. 56), wishes to purchase an interest in the business and the three partners agree to sell him a one-fourth interest for $3,000.00 payable $1,000.00 cash; one Liberty bond, accepted at par value, $1,000.00; and his note, due in six months, for $1,000.00. The assets invested by him become the partnership property. It is agreed that each partner will share equally in the profits of the partnership from July 1, but that the books will not be closed until the end of the business year. All the partners agree to the other conditions in the original Articles of Copartnership.

Prepare (1) the entry for the assets invested by Robert MacFarland, and (2) show the changes that will be necessary in preparing new Articles of Copartnership.

Second Division. December 31 the Statement of Profit and Loss prepared by the bookkeeper for the Central Garage shows the net profit for the year to be $2,495.75. Make the general journal entry to credit each partner's Capital account for his share of the profit, taking into consideration the agreement made with Robert MacFarland July 1. The student may assume that this net profit stands as a credit to the Profit and Loss account, and that one half of the profit is applicable to the first half of the year and the remainder to the latter half.

Exercise No. 58, Opening Entry, and Transfer of Net Profit to Partners' Capital and Personal Accounts.

First Division. H. W. Meyer owns and operates a gasoline station at 3275 Grandview Avenue. James C. Dexter owns and operates a gasoline station at 716 Cooper Street of the same city. A. L. Burwell is a salesman for the Moore Oil and Refining Co. These three men agree to form a partnership for the purpose of continuing the operations of the two gasoline stations and establishing a new station at 4721 Poplar Street. The partnership is to continue for a period of two years from October 1. The business is to be conducted under the name of "The Merchants Oil and Gas Co." The investment of each partner is as follows:

*

H. W. Meyer invests gasoline in stock, $216.50; oil in stock, $175.95; equipment, $1,600.00; notes receivable, $200.00; accounts receivable, $309.50; cash, $1,000.00; building, $2,500.00; lot, $1,500.00. He owes notes payable, $1,500.00; accounts payable, $375.50.

James C. Dexter invests gasoline in stock, $1,459.20; oil in stock, $1,298.65; cash, $835.50; rent paid in advance, $200.00; accounts receivable, $1,630.25; and notes receivable, $984.40. He owes a note payable, $562.50.

A. L. Burwell invests gasoline, $450.60; oil, $322.20; and cash $5,000.00. He owes an account payable, $250.00.

Mr. Meyer is to have charge of one oil station and supervise the buying; Mr. Dexter is to have charge of the other oil station and keep the books of account; Mr. Burwell is to have charge of the new oil station and supervise the selling. Each partner is to receive a salary of $250.00 per month; profits are to be divided equally. Each partner agrees not to engage in any other line of business.

The student is required to make the opening entry in the general journal, showing a synopsis of the Articles of Copartnership.

Second Division. September 30 of the following year, the Statement of Profit and Loss shows a profit of $6,387.68. It is agreed that each partner's Capital account shall be credited with $1,500.00 of this profit and each partner's Personal account credited with the remainder of his share of the profit. The amount credited to the Personal accounts may be withdrawn within ninety days, but not more than one-third is to be withdrawn within any one month.

The student is required to show in journal form the entry necessary to transfer the net profit from the Profit and Loss account to the Partners' Capital and Personal accounts; also the entry October 31, when each partner withdraws one-third of the profit credited to his Personal account.

QUESTIONS

1. Explain the distinction between bookkeeping and accounting.
2. Would you consider it advisable to enter into a partnership agreement with an individual who had an undesirable reputation? Why?
3. Name three local business concerns which are conducted as partnerships.
4. Name the essential elements of the Articles of Copartnership and state the reasons why the partnership agreement should be in writing.
5. If one partner should sell the entire stock of goods for cash without the consent of the other partners, and deposit the cash in the bank in the name of the partnership, could the other partners rescind the sale?
6. If a partner whose capital account shows a balance of $9,600.00, sells his interest in the partnership to the other partners for $9,000.00 cash, what entry is required to record the transaction on the books of the partnership?
7. Why does the Federal Government require each partnership and each partner to submit a separate income tax return?
8. (a) Why is an account debited with each asset invested by a partner? (b) Why is the partner's Capital account credited?
9. Why is it advisable to keep two accounts with each partner?
10. If a note invested by one of the partners proves worthless, what account should be debited? If the partner had guaranteed payment, would this change the account debited?

Chapter XIV

ACCOUNTS WITH FIXED ASSETS

The Purpose of this Chapter is to explain the accounts necessary to record the value of the various fixed assets usually needed in connection with the operations of a mercantile business, and also to show the method of recording the depreciation on each group. It is necessary to have a separate account with each group of fixed assets because the loss resulting from the use of these assets affects different operating costs.

§ **126. Fixed Assets** consist of property purchased for use in the business which will not be entirely consumed by its use (§ 99). This property may be the building in which the business is operated, fixtures in connection therewith, automobile trucks or horses and wagons for delivering goods, store fixtures, etc. The nature and use of a fixed asset will determine the account in which its value should be recorded. The accounts necessary to record the fixed assets usually owned by a mercantile business are Office Equipment, Store Fixtures, Delivery Equipment, Buildings, and Land.

It is necessary to keep two accounts with each group of fixed assets, one to show the cost of the assets and the other to show the decrease in value on account of use, and lapse of time. The debit side of a fixed asset account should show cost and the credit side cost so that the balance will show cost (§ 99). If any other value than cost is recorded on the credit side of a fixed asset account, the balance will mean nothing to the management when adjusting fire losses or determining the amount of decrease in the value of the property. The necessity for keeping two accounts with each group of assets requires an explanation of depreciation.

§ **127. Depreciation** refers to the decrease in the value of fixed assets through their use in connection with the operation of the business and the lapse of time. A typewriter purchased for $100.00 on January 1 and used throughout the year will not be worth $100.00 at the end of the year. An automobile truck purchased for $2,000.00 on January 1 and used throughout the year for delivering merchandise will not be worth $2,000.00 at the end of the year. A building purchased for $5,000.00 on January 1 and used as a home for the business throughout the year will not be worth $5,000.00 at the close of the year.

The decrease in the value of fixed assets depends largely on the nature of the asset. A safe will not depreciate so rapidly as a typewriter; an automobile truck will depreciate more rapidly than scales or fixtures used in the storeroom; a frame building will depreciate more rapidly than a brick or concrete building. The purpose of the discussion here is not to consider the various methods of arriving at the depreciation of fixed assets but to show the student the reason for depreciation so that he may see the necessity for taking care of it through a record in the proper accounts.

The amount of the yearly decrease in the value of fixed assets due to depreciation is usually based on a percentage of the cost of the fixed asset. If it is estimated that a fixed asset can be used for a period of ten years, the amount of the depreciation each year would be ten per cent of the cost. If it is estimated that the fixed asset can be used for twenty years, the depreciation each year would be five per cent of the cost. This percentage is calculated on the cost price and not on the present value; this is one reason for showing cost value in the account with each group of fixed assets.

In all cases the amount of depreciation recorded will be based on estimate only. There is no means of knowing the exact amount of the depreciation. However, the policy should be to depreciate the fixed assets so that the difference between the account which shows the cost value of the asset and the account which shows the estimated depreciation will show the approximate present value of the property. If furniture and fixtures which cost $4,000.00 are destroyed by fire, the adjustment will be made on the present value of these fixtures. If the account with Furniture and Fixtures shows the cost value $4,000.00 and the account with depreciation shows the estimated decrease $1,000.00, the insurance adjuster will have a basis (present value $3,000.00) on which to adjust the fire loss.

The reserve for depreciation of a group of fixed assets is usually recorded in an account with the same title as that which shows the cost value of the asset, preceded by "Reserve for Depreciation of." "Reserve for Depreciation of Office Equipment" used as the title of an account indicates that the account shows the depreciation on equipment purchased for use in the office.

Depreciation is an operating cost and the amount is recorded on the debit side of an expense account at the same time it is recorded on the credit side of the Reserve for Depreciation account. The nature and use of the fixed asset will determine the expense accounts affected; this is explained further in Chapter XVI.

OFFICE EQUIPMENT ACCOUNT

§ 128. **The Purpose of this Account** is to show the cost of the property purchased for use in the office, which includes desks, chairs, typewriters, safes, files, bookcases, tables, etc.

Debit the Office Equipment Account:

¶ 1. For the invested value of office equipment on hand at the beginning of the business, and for the cost value of office equipment purchased.

Credit the Office Equipment Account:

¶ 2. For the cost value of office equipment sold, exchanged, stolen, destroyed, or discarded.

¶ 3. *The Balance of the Office Equipment Account* shows the cost value of the office equipment owned by the business. It is shown as a fixed asset on the Balance Sheet (Illustration No. 92).

RESERVE FOR DEPRECIATION OF OFFICE EQUIPMENT ACCOUNT

§ 129. **The Purpose of this Account** is to show the estimated amount of depreciation on office equipment. This depreciation is usually five or ten per cent of the cost of office equipment, depending on the nature of the equipment: it is quite evident that a typewriter will depreciate more rapidly than a safe or a desk.

Debit the Reserve for Depreciation of Office Equipment Account:

¶ 1. For the cost value of office equipment discarded or destroyed.*

¶ 2. For the depreciation applicable to office equipment sold or exchanged.

Credit the Reserve for Depreciation of Office Equipment Account:

¶ 3. At the close of each fiscal period, for the estimated amount of depreciation on account of the use of office equipment during the period.

¶ 4. *The Balance of the Reserve for Depreciation of Office Equipment Account* shows the reserve set aside for the depreciation of office equipment, the cost value of which is debited to the Office Equipment account. The cost value of office

*It is assumed that the reserve for depreciation on the equipment discarded or destroyed approximately equals its cost value; if this is not the case, the debit to the reserve account will be for the depreciation only, the balance being debited to a non-operating expense account with an appropriate title.

equipment (balance of the Office Equipment account) is shown as a fixed asset on the Balance Sheet and the depreciation (balance of the Reserve for Depreciation of Office Equipment account) is shown as a deduction from this amount (Ill. No. 92).

The reserve account should always show a credit balance. If at any time the debits are approximately the same as the credits, it is evidence that an error is being made by setting up a reserve too small or by debiting this account with more than the depreciated value of office equipment discarded, stolen, or destroyed. When errors of this kind occur, they are corrected by an entry in the general journal to record the additional depreciation or to adjust the amounts debited to the account. The entry to record the additional depreciation affects the same accounts as the entry required to record the depreciation at the end of the fiscal period; the entry to adjust the debits transfers the amount adjusted to an expense account or to a special loss account.

¶ 5. *Entry to Record Depreciation of Office Equipment.* At the close of each fiscal period an entry is made in the general journal to record the estimated depreciation of office equipment. The Administrative Expense account is debited and the Reserve for Depreciation of Office Equipment account credited. If the cost of office equipment owned by the business, as shown by the balance of the Office Equipment account, is $500.00, and the estimated depreciation is five per cent, the entry in journal form will appear as in the illustration below.

December 31, 19—

Administrative Expense 25
Res. for Dep. of Office Equip. 25
Five per cent depreciation on cost
of office equipment

The use of the office equipment will determine the expense account to be debited for the depreciation. Unless there are a number of departments in the office, the depreciation may be regarded as an administrative cost (Chapter XVI).

STORE FIXTURES ACCOUNT

§ 130. The Purpose of this Account is to show the cost of property purchased for use in the storeroom, which includes shelving, show cases, scales, trucks, etc. The nature of this account is the same as that of the Office Equipment account and the various debits and credits are similar. If desired, the cost of office equipment and store fixtures may be recorded in one account under the caption "Office Furniture and Store Fixtures" or "Furniture and Fixtures" (§ 100).

Debit the Store Fixtures Account:

¶ 1. For the invested value of store fixtures on hand at the beginning of the business, and for the cost value of store fixtures purchased.

Credit the Store Fixtures Account:

¶ 2. For the cost value of store fixtures sold, exchanged, stolen, destroyed, or discarded.

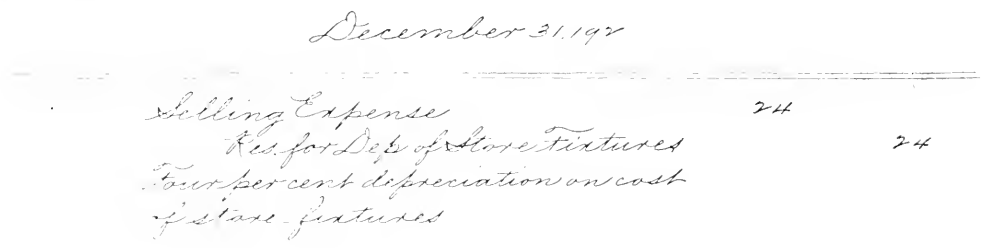
¶ 3. *The Balance of the Store Fixtures Account* shows the cost value of the store fixtures owned by the business. It is shown as a fixed asset on the Balance Sheet (Illustration No. 92).

RESERVE FOR DEPRECIATION OF STORE FIXTURES ACCOUNT

§ 131. The Purpose of this Account is to show the net amount of the reserve set aside to take care of the estimated depreciation of store fixtures. This depreciation is usually from three to ten per cent of the cost of the fixtures, depend-

ing on the nature of the property. The debits and credits are the same as those given in § 129 except that they apply to store fixtures. The balance of the Reserve for Depreciation of Store Fixtures account shows the net amount of the reserve set aside for the depreciation of the store fixtures. The cost value of store fixtures (balance of the Store Fixtures account) is shown as a fixed asset on the Balance Sheet and the depreciation (balance of the Reserve for Depreciation of Store Fixtures account) is shown as a deduction from this amount (Ill. No. 92).

¶ 1. *Entry to Record Depreciation of Store Fixtures.* At the close of each fiscal period an entry is made in the general journal to record the estimated depreciation of store fixtures. The Selling Expense account is debited and the Reserve for Depreciation of Store Fixtures account credited. If the cost of store fixtures owned by the business, as shown by balance of the Store Fixtures account, is $600.00, and the estimated depreciation is four per cent, the entry in journal form will appear as in the illustration below.



The use of store fixtures will determine the operating account affected by the depreciation. Unless there are a number of departments in which the store fixtures are used, their decrease in value on account of depreciation may be regarded as a selling cost (Chapter XVI).

DELIVERY EQUIPMENT ACCOUNT

§ 132. **The Purpose of this Account** is to show the cost of property purchased for use in delivering merchandise sold, which includes teams, wagons, harness, automobiles, or any other conveyances used by the business in delivering merchandise to customers. The nature of the account is the same as that of the Office Equipment account, and the various debits and credits are similar.

Debit the Delivery Equipment Account:

¶ 1. For the invested value of delivery equipment on hand at the beginning of the business, and for the cost value of delivery equipment purchased.

Credit the Delivery Equipment Account:

¶ 2. For the cost value of delivery equipment sold, exchanged, stolen, destroyed, or discarded.

¶ 3. *The Balance of the Delivery Equipment Account* shows the cost value of the delivery equipment owned by the business. It is shown as a fixed asset on the Balance Sheet (Illustration No. 92).

RESERVE FOR DEPRECIATION OF DELIVERY EQUIPMENT ACCOUNT

§ 133. **The Purpose of this Account** is to show the net amount of the reserve set aside to take care of the depreciation of delivery equipment. This depreciation is usually from ten to twenty per cent of the cost of delivery equipment, depending on the nature of the equipment. The debits and credits are the same as those given in § 129 except that they apply to delivery equipment. The balance of the Reserve for Depreciation of Delivery Equipment account shows the

net amount of the reserve set aside for the depreciation of delivery equipment. The cost value of delivery equipment (balance of the Delivery Equipment account) is shown as a fixed asset on the Balance Sheet and the depreciation (balance of the Reserve for Depreciation of Delivery Equipment account) is shown as a deduction from this amount (Illustration No. 92).

¶ 1. *Entry to Record Depreciation of Delivery Equipment.* At the close of each fiscal period an entry is made in the general journal to record the estimated depreciation of delivery equipment. The Selling Expense account is debited and the Reserve for Depreciation of Delivery Equipment account credited. If the cost of the delivery equipment owned by the business, as shown by the balance of the Delivery Equipment account, is $1,850.00 and the estimated depreciation is ten per cent, the entry in the journal form will appear as in the illustration below.

December 31, 19--

Selling Expense	185	
Res. for Depr. of Delivery Equip.		185
Ten percent depreciation on cost of delivery equipment		

If the cost of delivering merchandise sold to customers is recorded in a special account with Delivery Expense (Chapter XVI), this account would be debited for the depreciation.

LAND ACCOUNT

§ 134. The Purpose of this Account is to show the cost of land owned by the business, on which is located the buildings in which the business is conducted or on which buildings are to be constructed. When real estate is purchased, a separate value should be placed on the land and the buildings.

Debit the Land Account:

¶ 1. For the invested value of the land owned by the business at the beginning of the business, and for the cost of land purchased during the operations of the business.

Credit the Land Account:

¶ 2. For the cost of any part or all of the land sold.

¶ 3. *The Balance of the Land Account* shows the cost value of the land owned by the business, on which the home of the business is located or on which buildings will be constructed for use in connection with the operations of the business. It is shown on the Balance Sheet as one of the fixed assets of the business (Ill. No. 92).

The cost of land purchased by the business includes the purchase price of the land plus the cost of securing the title. Improvements of a permanent nature, such as sidewalks, grading, streets, etc., should be regarded as part of the cost of the land and debited to the Land account. Taxes and expenses in connection with the upkeep of the land are not a part of its cost, and should be recorded in an account which shows operating expense. If an account is kept with Building Expense, the taxes and cost of the upkeep of the land may be debited to this account. No depreciation account is necessary in connection with land because land does not depreciate on account of use.

BUILDINGS ACCOUNT

§ 135. The Purpose of this Account is to show the cost of the buildings owned by the business as a home. In the larger cities buildings are sometimes

owned as a home for the business without the business holding title to the land, but as a rule, the buildings and land are both owned by the business.

Debit the Buildings Account:

¶ 1. For the invested value of buildings owned at the beginning of the business, for the cost of buildings erected on land owned by the business, and for permanent improvements which add to the value of the buildings.

Credit the Buildings Account:

¶ 2. For the cost price of buildings sold, razed, or destroyed.

¶ 3. *The Balance of the Buildings Account* shows the cost value of the building or buildings used as a home for the business. It is shown on the Balance Sheet as one of the fixed assets (Illustration No. 92).

The cost of maintaining the building is one of the operating costs of the business and should be recorded in an account which shows operating cost. The cost of maintaining the buildings includes repairs and the other expense incident to keeping the building in first-class condition. Repairs of such a nature that they increase the value of the building should be regarded as a part of the cost of the building and debited to the Buildings account. The replacing of a shingle roof with the same kind of material would be one of the expenses incident to keeping the building in good order; the replacing of the shingle roof with a slate or tile roof would increase the value of the building, hence should be regarded as an increase in the amount of capital invested in the asset.

RESERVE FOR DEPRECIATION OF BUILDINGS ACCOUNT

§ 136. The Purpose of this Account is to show the net amount of the reserve set aside to take care of the depreciation of buildings. The yearly depreciation is usually from two to five per cent of the cost of the buildings, depending on the nature of the construction. The debits and credits are the same as those given in § 129, except that they apply to buildings. The balance of the Reserve for Depreciation of Buildings account shows the net amount of the reserve set aside for the depreciation of buildings. The cost value of buildings (balance of the Buildings account) is shown as a fixed asset on the Balance Sheet and the depreciation (balance of the Reserve for Depreciation of Buildings account) is shown as a deduction from this amount (Illustration No. 92).

¶ 1. *Entry to Record Depreciation of Buildings.* At the close of each fiscal period an entry is made in the general journal to record the estimated depreciation of buildings. The Administrative Expense account is debited and the Reserve for Depreciation of Buildings account credited; if an account with Building Expense (§ 156) is maintained, this account is debited instead of Administrative Expense. If the cost of the buildings owned by the business, as shown by the balance of the Buildings account, is $5,000.00, and the estimated depreciation is one per cent, the entry in journal form will appear as in the illustration below.

December 31, 19—

Administrative Expense	50	
Res. for Dep. of Buildings		50
One per cent depreciation on cost of buildings.		

The use of the building will determine the operating expense account affected by the depreciation. Unless a number of departments are maintained, the depreciation may be regarded as a rent cost, hence a debit to Administrative Expense.

Exercise No. 59, Recording Transactions with Fixed Assets and Depreciation.

A truck was purchased January 1, 1919, for $2,000.00 cash. At the close of each year, fifteen per cent was allowed for the depreciation during the year. What is the book value of the truck December 31, 1921? Show (a) the entry in journal form required to record the purchase of the truck, (b) the entry required at the close of each year to record the estimated depreciation, and (c) the posting of these entries to the proper accounts; also show (d) the entry in journal form required to record the purchase of a new truck January 10, 1922, for $3,000.00, cash $1,900.00, exchange value of the old truck, $1,100.00, and (e) the posting of this entry to the ledger accounts.

Exercise No. 60, Recording Transactions with Fixed Assets, Depreciation and Fire Loss.

The following office equipment was purchased January 1, 1917: safe, $200.00, bookkeeper's desk, $75.00; stool, $5.00; typewriter desk, $60.00; typewriter, $100.00; chair, $9.50; roller top desk, $90.00; chair, $12.50; filing cabinet, $65.00; adding machine, $350.00. The safe was purchased from the Hall Safe and Lock Co., terms one-half cash and one-half sixty-day note without interest. The adding machine was purchased from the Dalton Adding Machine Co., for cash $250.00, and two notes for $50.00 each, due in six and twelve months without interest. Cash was paid for the desks, chairs, typewriter and filing cabinet.

At the close of each year, up to and including December 31, 1921, this equipment was depreciated as follows: desk, 5%; chairs, 10%; typewriter, 12½%; adding machine, 10%; files, 5%; safe 4%.

All equipment, except the safe, was damaged by fire Jan. 17, 1922. The insurance adjuster settled by paying fifty per cent of the book value Jan. 1, 1922 and allowing the owner to retain the equipment. Jan. 22 the typewriter was exchanged for a new one, price $100.00, with an exchange allowance of $25.00, cash being paid for the difference. The adding machine was exchanged for a new one, price $350.00, with an allowance of $100.00 and cash paid for the difference. The desks, chairs, and files were sold to a junk dealer for $50.00. New desks, chairs and files were purchased January 23 for cash at the same price as the old ones.

The student is required to show (a) the entry in journal form for the furniture when it was purchased, (b) the entry in journal form for the depreciation at the close of each year, and (c) the posting of these entries to the proper accounts; (d) the entry in journal form for the fire adjustment, and (e) the posting of this entry to the proper accounts; (f) the entry in journal form for the purchase of the new typewriter and adding machine, (g) the entry for the sale of the desks, chairs, and files, (h) the entry for the purchase of the new desks, chairs, and files, and (i) the posting of these entries to the proper accounts.

When equipment is sold or exchanged, the actual depreciation only should be debited to the Reserve for Depreciation account. The difference between the present book value of the equipment (cost less depreciation) and its exchange or selling price is the amount of the loss on account of the fire and should be debited to an account with "Fire Loss." The amount received from the insurance adjuster reduces this loss, hence should be credited to the Fire Loss account. When these entries have been made and posted, the Office Equipment account will show the cost of office equipment owned by the business, the Reserve for Depreciation account will show the depreciation on the safe, and the Fire Loss account will show the net loss on account of the fire. (See note at the bottom of page 148.)

Exercise No. 61, Recording Transactions with Fixed Assets and Depreciation, Adjustment of Fire Loss, and Report to the Owner.

The facts recorded in the ledger accounts on page 154 show the Office Equipment and Reserve for Depreciation of Office Equipment accounts on December 10, 1922, at which time the equipment was partially destroyed by fire; the books of account, which were in the safe, were not damaged. On December 15 the insurance company settled by paying cash for sixty per cent of the book value of the

equipment at the time of the fire and allowing the owner to retain the fixtures. December 18, the owner sold the equipment to a junk dealer for $50.00.

The student is required to show (a) the entries in journal form for the equipment when purchased, assuming that cash was paid for all equipment, except typewriter No. 2, at the time of purchase; the entry in journal form for the depreciation, December 31, 1921; (c) the entry in journal form for the exchange of typewriter No. 1 for typewriter No. 2, assuming that the exchange value of the former was $90.00 and that cash was paid for the difference; (d) the entry in journal form for the adjustment of the insurance company assuming that 5% depreciation is allowed from January 1, 1922, to the date of the fire; (e) the entry in journal form for the sale of the equipment; (f) a statement to the owner showing his loss on office equipment on account of the fire.

The student will observe that the equipment is described in the explanation column of the ledger account. When typewriter No. 1 is exchanged, the new typewriter is shown as No. 2 instead of No. 1. Equipment should always be numbered when purchased and the number attached to it by tag or tack; it should be known by this number through the description in the explanation column of the account or in a special inventory book.

Office Equipment

1921 Jan	3	Safe	J 1	250	1922 Feb	1	Typewr No. 1	J 32	100
	3	Desk No 1	J 1	85					
	3	Chairs Nos 1-3	J 1	30					
	3	Typewr No. 1	J 1	100					
Feb 1922	4	Files	C 5	35					
Jan	9	Desk No 2	C 27	55					
Feb	1	Typewr No. 2	J 32	175					

Reserve for Depreciation of Office Equipment

1922 Feb	1	Typewr No. 1	J 32	10	1921 Dec	31	5%	J 33	25

QUESTIONS

1. Why is it necessary to have two accounts with each group of fixed assets?
2. What amount will the insurance adjuster use as a basis for adjusting a fire loss on a truck, cost $4,000.00, reserve for depreciation $1,500.00?
3. Why should the cost value of delivery equipment be recorded in an account separate from that in which the cost value of office equipment is shown?
4. Under what conditions would the depreciation on buildings be regarded as a selling expense?
5. Why is it necessary to show the cost value of buildings in one account and the cost value of land in another?
6. Under what conditions would the depreciation on office equipment be regarded as a buying expense?
7. Why does the Federal Government limit the amount of depreciation?
8. Would the percentage of depreciation on a brick building be greater or less than that on a frame building? Why?
9. When is the cost of repairs on a building debited (a) to the Building account? (b) to Administrative Expense? (c) to Building Expense?
10. Under what conditions might a Reserve for Depreciation account show a debit balance?

Chapter XV

OPERATING AND NON-OPERATING INCOME

The Purpose of this Chapter is to explain the accounts needed to record the principal income and the special income of the business during the fiscal period; an income to a business is the profit made through the operations of the business. The owner should know the amount of the principal income separate from special income in order that he may better control future operations of his business.

§ 137. Every Business is organized for the specific purpose of making a profit. This profit may result (a) from the purchase and sale of merchandise, (b) from the manufacture and sale of merchandise, or (c) from the sale of services. The profit resulting from the sale of merchandise or services is usually referred to as the operating income of the business. Other profits which result from the operation of the business are usually referred to as non-operating income. Non-operating income includes interest earned, discount on merchandise purchased, profit on sales of real estate, and other profits of this nature which may or may not occur during each fiscal period.

The operating income of a mercantile business is the profit resulting from selling merchandise; a newspaper publishing business, the sale of advertising and subscriptions; a street railway, the sale of transportation; a telephone company, the sale of telephone service. The non-operating income in all of these businesses may be the same; that is, the merchant, the publisher, the street railway, and the telephone company may each earn interest on notes, make a profit through discounting its bills, or sell at a profit real estate purchased for use in the business. The owner of the business will base the future operations of his business on the operating income because this will occur in each fiscal period, while non-operating income may occur only occasionally.

§ 138. Accounts with Merchandise. The operating income of a mercantile business results from the sale of merchandise which has been purchased for sale. As explained in §§ 17 and 18, the cost of merchandise purchased may be recorded in one account with Purchases, and the sales of this merchandise in one account with Sales. When this plan is followed, the Purchases account is debited with the invoice, freight and drayage cost, and credited with returns and allowances; the Sales account is credited with the sales, and debited with returns and allowances. Where the operations of the business are not extensive, the information obtained from the Purchases and Sales accounts will be all that the owner needs; but where the amounts involved in connection with freight costs, returns, and allowances are large, he will want to know the amount of each item separate from the invoice cost of merchandise and the returns from sales. When this information is needed, the invoice cost is recorded in the Purchases account, sales in the Sales account, the freight and drayage cost in a separate account, and returns and allowances both on account of purchases and sales each in separate accounts.

The discussion of accounts with Purchases, Freight In, Purchases Returns, Purchases Allowances, Inventory, Sales, Sales Returns, and Sales Allowances, which follows, relates to the merchandise accounts necessary to give the management detailed information in regard to the cost of the merchandise sold and the returns from sales.

If desired, one account may be kept with Merchandise which will show all the facts relating to its purchase and sale. However, if this is done, it causes returned sales to be recorded as if they were purchases and returned purchases to be recorded as if they were sales, which is incorrect. It also requires the cost price to appear on the debit side and the sale price on the credit side of the same account, which is contrary to the accounting principle that equal values should appear on each side of the same account, as in Cash and in Accounts Receivable.

PURCHASES ACCOUNT

§ 139. **The Purpose of this Account** is to show the net invoice cost of merchandise purchased. When the account is kept for this purpose, returns, allowances, and freight and drayage cost are recorded in separate accounts. The owner of the business needs to know the invoice cost of the merchandise purchased in order to compare the purchases of the current period with those of preceding periods, and for use as a guide in making future purchases.

Debit the Purchases Account:

¶ 1. For the invoice cost of merchandise purchased.

Credit the Purchases Account:

¶ 2. For adjustments which reduce the invoice cost of merchandise purchased as shown by the debit side.

¶ 3. *The Balance of the Purchases Account* shows the net invoice cost of merchandise purchased during the fiscal period. It is shown on the Statement of Profit and Loss as one of the costs of the merchandise sold (Ill. No. 93).

PURCHASES RETURNS ACCOUNT

§ 140. **The Purpose of this Account** is to show the net value of merchandise purchased and later returned to the concern from which it was purchased. It is quite evident that merchandise purchased would not be returned unless it were unsatisfactory; if the amount of the returns is unusually large, the management will know that it is advisable to place orders with other concerns which will deliver the grade and quality of goods desired.

Debit the Purchases Returns Account:

¶ 1. For any adjustments which reduce the amount of merchandise returned as shown by the credit side.

Credit the Purchases Returns Account:

¶ 2. For the invoice cost of merchandise returned to the seller by the business.

¶ 3. *The Balance of the Purchases Returns Account* shows the net amount of purchases returned to the seller. It is shown on the Statement of Profit and Loss as a deduction from the net invoice cost of purchases (balance of the Purchases account) to ascertain the net purchases (Illustration No. 93.)

PURCHASES ALLOWANCES ACCOUNT

§ 141. **The Purpose of this Account** is to show the net amount of allowances granted to the business on account of merchandise purchased being received in damaged condition or not according to sample. If the amount is unusually large, it is quite evident that it will not be good policy for the business to continue to buy merchandise from those who must be continually making allowances because the merchandise is carelessly packed or otherwise not according to specifications. If desired, purchases allowances may be combined with purchases returns and recorded in an account with Purchases Returns and Allowances because they are both deductions from the invoice cost.

Debit the Purchases Allowances Account:

¶ 1. For any adjustments which reduce the amount of allowances granted to the business as shown by the credit side.

Credit the Purchases Allowances Account:

¶ 2. For the amount of allowances granted to the business by its creditors.

¶ 3. *The Balance of the Purchases Allowances Account* shows the net amount of allowances granted to the business by the seller on account of merchandise

purchased being unsatisfactory. It is shown on the Statement of Profit and Loss as a deduction from the net invoice cost of purchases (balance of the Purchases account) to ascertain the net purchases (Illustration No. 93).

FREIGHT IN ACCOUNT

§ 142. **The Purpose of this Account** is to show the freight, drayage, express, and postage cost of merchandise purchased. The word "in" is used in connection with the title of this account to distinguish the account from that which shows the record of freight and drayage on merchandise sold, usually designated as "Freight Out." Freight and drayage on merchandise purchased are part of the purchase cost of the merchandise, while freight and drayage on merchandise sold are part of the selling cost; hence the necessity for recording the two classes of freight and drayage in separate accounts.

Debit the Freight In Account:

¶ 1. For transportation (freight, express, and postage) cost and drayage cost on merchandise purchased.

Credit the Freight In Account:

¶ 2. For any adjustments which reduce the transportation and drayage cost as shown by the debit side.

¶ 3. *The Balance of the Freight In Account* shows the transportation and drayage cost of merchandise purchased; the drayage cost may be shown in a separate account if desired. The balance of this account is shown on the Statement of Profit and Loss as a part of the cost of the merchandise purchased. (Illustration No. 93.)

INVENTORY ACCOUNT

§ 143. **The Purpose of this Account,** as explained in § 55, is to show the value of the merchandise inventory at the close of a fiscal period. Cost value includes the invoice and transportation cost; it is customary to include these two costs as one amount in making the extensions on the inventory sheet. The value of this merchandise may be transferred to the Purchases account at the beginning of the next fiscal period, or it may be allowed to remain in the Inventory account throughout the period and closed into Purchases at the close of that period.

Debit the Inventory Account:

¶ 1. At the close of the fiscal period, with the value of the merchandise in stock as shown by the inventory made at that time.

Credit the Inventory Account:

¶ 2. At the beginning of the next fiscal period or at its close, for the value of the merchandise in stock as shown by the debit entry.

¶ 3. *The Balance of the Inventory Account.* The value of the merchandise in stock at the beginning of a current fiscal period will be shown recorded either in the Inventory account or in the Purchases account depending on when the entry mentioned in ¶ 2 is made; this value is shown as an addition to the cost of purchases on the Statement of Profit and Loss (Illustration No. 93). The value of merchandise on hand at the close of a current fiscal period will appear on

the debit side of the Inventory account; it is shown as a current asset on the Balance Sheet (Illustration No. 92) and as a deduction from the net cost of merchandise purchased on the Statement of Profit and Loss (Illustration No. 93).

If desired, the value of merchandise on hand at the close of the fiscal period may be recorded in an Inventory account with the year written after the name of the account, in which case the amount would remain in the Inventory account until the close of the next fiscal period and the inventory at the close of the next fiscal period would be recorded in an Inventory account under the year. This may be illustrated as follows: Davis Bros. began business January 1, 1920. December 31, 1920, the merchandise inventory was $5,651.75; this was recorded in an account with "Inventory 1920" and was allowed to remain in this throughout the year 1921. December 31, 1921, the inventory was $6,278.85. This was recorded in an account with "Inventory 1921." After the ledger was closed December 31, 1921, the "Inventory 1920" account was in balance and the value of merchandise in stock December 31, 1921 was shown throughout the year 1922 in the "Inventory 1921" account.

SALES ACCOUNT

§ 144. **The Purpose of this Account** is to show the gross returns from the sales of merchandise; when the account is kept for this purpose, the returns and allowances are recorded in separate accounts. As explained in § 18, the account may show the net returns from sales, in which case returns and allowances are recorded in the Sales account and not in separate accounts.

Debit the Sales Account:

¶ 1. For the amount of errors which reduce the returns from merchandise sold as shown by the credit side.

Credit the Sales Account:

¶ 2. For the selling price of merchandise sold.

¶ 3 *The Balance of the Sales Account* shows the gross sales during the fiscal period. It is shown on the Statement of Profit and Loss as "Gross Sales" under the caption "Returns from Sales" (Illustration No. 93).

SALES RETURNS ACCOUNT

§ 145. **The Purpose of this Account** is to show the net value of merchandise sold and later returned by the one to whom it was sold. If the amount is unusually large, the management will know that the merchandise it offers for sale is not giving satisfaction to customers and can take proper steps to remedy this condition.

Debit the Sales Returns Account:

¶ 1. For the selling price of merchandise returned to the business by customers.

Credit the Sales Returns Account:

¶ 2. For any adjustments which reduce the value of merchandise returned as shown by the debit side.

¶ 3. *The Balance of the Sales Returns Account* shows the net amount of sales returned by customers. It is shown on the Statement of Profit and Loss (Illustration No. 93) as a deduction from the gross returns from sales (balance of the Sales Account).

SALES ALLOWANCES ACCOUNT

§ 146. **The Purpose of this Account** is to show the net amount of allowances granted by the business to its customers; these allowances are usually granted because the merchandise is not equal to the sample, or was received by the customer in bad condition because of imperfect manufacture or carelessness in packing. Sales allowances should be recorded separately from sales returns because these allowances are a loss, while merchandise returned is placed in stock for resale.

Debit the Sales Allowances Account:
¶ 1. For the amount of allowances granted by the business to its customers.

Credit the Sales Allowances Account:
¶ 2. For any adjustments which reduce the amount of allowances granted to customers as shown by the debit side.

¶ 3. *The Balance of the Sales Allowances Account* shows the net amount of allowances granted to customers on account of merchandise sold being unsatisfactory. It is shown on the Statement of Profit and Loss (Illustration No. 93) as a deduction from the gross returns from sales (balance of the Sales account).

§ 147. **Merchandise Discount** refers to the discount deducted from purchases and sales invoices as per terms. The discount deducted on purchases invoices is usually referred to as "purchases discount" or "discount on purchases"; the discount deducted from sales invoices is usually referred to as "sales discount" or "discount on sales." The purpose of merchandise discount is to encourage prompt payment. It is quite evident that the buyer will make an effort to pay for merchandise within the terms of discount because by so doing he can cancel an obligation with an asset of less value and thus make a profit.

PURCHASES DISCOUNT ACCOUNT

§ 148. **The Purpose of this Account** is to show the net amount of discount resulting from the payment of purchases invoices subject to discount within the terms of the discount as stated in the invoices. The discount is the difference between the amount of the check required to pay the purchases invoice and the net amount of the purchases invoice.

Debit the Purchases Discount Account:
¶ 1. For adjustments which reduce the amount of the purchases discount as shown by the credit side of the account.

Credit the Purchases Discount Account:
¶ 2. For the discount deducted on purchases when paid within the terms of the invoices either in full or in part.

¶ 3. *The Balance of the Purchases Discount Account* shows the net amount of the discount deducted for prompt payment of purchases invoices during the time for which the record is kept. If the management regards purchases discount as a non-operating income, it is listed with the other income on the Statement of Profit and Loss (Illustration No. 93); if purchases discount is regarded as a deduction from the cost of merchandise purchased, it is shown on the Statement of Profit and Loss as a deduction from the cost of purchases. It is usually deducted from the gross purchases in the preparation of the income tax return (Art. 1583, Treasury Reg. No. 62).

NOTE—The purpose of the discussion of purchases discount as given here is to show the debits and credits applicable to the account; these are the same whether purchases discount is regarded as a deduction from the cost of merchandise purchased or as a non-operating income. Since the statistical information gained from the facts shown by the Purchases Discount account is the same no matter how it is regarded, and since the net profit is the same, it is not deemed advisable to enter into a discussion as to whether it is better to regard it as a deduction from purchases cost or as a non-operating income. It is regarded as a non-operating income in the exercises in this text and in the practice sets, and as a deduction from gross purchases on the income tax return.

INTEREST EARNED ACCOUNT

§ 149. **The Purpose of this Account,** as explained in § 107, is to show the interest income to the business through the use of its money by others. This is regarded as a non-operating income because it is an income that may not occur in every fiscal period.

Debit the Interest Earned Account:

¶ 1. For any deductions which reduce the income from interest as shown by the credit side.

Credit the Interest Earned Account:

¶ 2. For interest income from accounts and notes receivable.

¶ 3. *The Balance of the Interest Earned Account* shows the net returns from interest to the business. It is shown on the Statement of Profit and Loss as one of the non-operating incomes (Illustration No. 93).

Exercise No. 62, Purchases and Purchases Discount.

The student is required to show (a) the entry in journal form when the purchase in the invoice below was made; (b) the entry in journal form when the invoice was paid by the check below; and (c) the posting of these entries to the Purchases and Purchases Discount accounts.

J. A. CHURCH, President A. T. NESBITT, Vice President W. D. WOLFE, Secy L. L. EVANS, Treas

The Cincinnati Cordage and Paper Co.

PAPER AND TWINE

DEPENDABLE C. & P. CO.

No. 623 MAIN ST. CINCINNATI

No. 535 EAST THIRD ST. DAYTON

OFFICES No. 623 MAIN ST. WAREHOUSE ST. CLAIR AND SANDUSKY ST.

TERMS 2/30, n/60 SOLD TO South-Western Publishing Co.
309 W. Third St.,
Cincinnati, Ohio.

CINCINNATI 6/18 192

Accounts to be settled Monthly

No Claims allowed on this Bill unless made within Five Days after receipt of Goods. Pay nothing to Agents unless by our written Authority.

50207	9 x 14½ String and Button Fasten Envelopes per M	19.75	991	59

Purchases Invoice Subject to Discount.

South-Western Publishing Company
Incorporated
309 West Third Street

No. 91202

CINCINNATI, OHIO, July 8 192

PAY TO THE ORDER OF The Cincinnati Cordage & Paper Co. - - - - - - - - - - $ 971.76

PAY $971 AND 76 CTS. DOLLARS

TO THE FIFTH-THIRD NATIONAL BANK OF CINCINNATI.

South-Western Publishing Co.
W. D. Crosswhite
SEC'Y.

Check in Payment of Purchases Invoice Less Discount.

Exercise No. 63, Recording Transactions with Purchases and Purchases Discount.

Antrim & Son
Macon Ga.

192 May	20	Returned	J12	162	50	192 May	16	2%, 30 days	P6	862	90

The student is required to show (a) the entries in journal form for the amounts recorded in the above ledger account; (b) the check stub filled out when the check was issued in payment of the invoice on the day it was due; (c) the entry in journal form to record the payment.

Exercise No. 64, Recording Transactions with Capital, Purchases, Sales, Returns, Allowances, and Purchases Discount.

Record in journal form the following transactions performed by Lewis & Statler, during the month of August:

Aug. 1. S. A. Lewis and C. F. Statler formed a partnership, each investing $2,500.00 cash.
Purchased from L. J. Kent Mfg. Co., Pittsfield, merchandise per purchases invoice dated today, terms 2% 10 days, $2,000.00. They prepaid the freight on this shipment, $214.50, which was added to the amount of the purchase on the invoice.

3. Cash sales to date per cash register, $43.40.
Sold Holmes & Warder, Richmond, on account, merchandise per sales invoice rendered, $164.50.

6. Received credit from the L. J. Kent Mfg. Co. for $35.00, value of merchandise returned.

10. Paid the L. J. Kent Mfg. Co. $2,140.20 in full for purchases invoice received on the 1st, less discount on the purchase as per terms.
Cash sales for the week per cash register, $175.11.

12. Sold Holmes & Warder, Richmond, on account, merchandise per sales invoice rendered, $290.20.

15. Purchased from the L. J. Kent Mfg. Co., Pittsfield, merchandise per purchases invoice dated August 13, terms 2% 10 days, $855.00. They prepaid the freight on this shipment, $70.50, which was added to the amount of the purchase on the invoice.

17. Cash sales for the week per cash register, $198.20.

19. Allowed Holmes & Warder credit for $16.50, value of merchandise returned.

20. Purchased merchandise for cash, $2,000.00.

22. Received credit from the L. J. Kent Mfg. Co. for $13.80 because part of the merchandise delivered on the 15th was received in damaged condition.

(Concluded on page 162.)

(*Exercise No. 64—Continued from page 161.*)

23. Paid the L. J. Kent Mfg. Co. for purchases invoice received on the 15th, including the freight, less allowance of the 22d and discount on the purchase as per terms.

24. Cash sales for the week per cash register, $341.19.

26. Sold S. T. Hollowell, City, on account, merchandise per sales invoice rendered, $69.80.

28. Allowed S. T. Hollowell credit for $5.00 because part of the merchandise sold him on the 26th was defective.

31. Cash sales for the week per cash register, $437.60.

When the above transactions have been recorded in the journal as instructed, open the necessary accounts on a sheet of ledger paper, allowing five lines for each account except Cash, L. J. Kent Mfg. Co., and Sales, each of which requires ten lines; post, and take a Trial Balance.

QUESTIONS

1. Why is it advisable for the bookkeeper to show operating income separate from non-operating income on the Statement of Profit and Loss?
2. Name the operating income and one or more non-operating incomes of a business engaged in the manufacture of ice.
3. Why and when is the balance of the Inventory account closed into the Purchases account?
4. (a) What does the balance of the Sales Allowances account indicate to the management? (b) the balance of the Sales Returns account?
5. (a) What does the balance of the Purchases Allowances account indicate to the management? (b) the balance of the Purchases Returns account?
6. (a) What does the balance of the Freight In account show? (b) What does this mean to the management? (c) What does the balance of the Freight In account determine with regard to the location of the business? (d) Give an example.
7. What is the purpose of merchandise discount?
8. What does the failure of a customer to pay a sales invoice subject to a three per cent discount within the terms of the discount indicate to the owner of the business?
9. Why is the discount deducted from purchases invoices an income to the business?
10. (a) How will the amount of purchases discount be shown on the Statement of Profit and Loss if the management prefers to regard it as a non-operating income? (b) How will it be shown if the management prefers to regard it as a deduction from the cost of merchandise purchased? (c) What effect will each of these methods have on the net profit of the business?

Chapter XVI

OPERATING AND NON-OPERATING EXPENSE

The Purpose of this Chapter is to explain the accounts necessary to record the expenses which are anticipated at the time the business is organized, and the accounts which are needed to record other expenses that may occur in the operations of the business. The owner of the business should know the cost of operating the business separate from special costs in order to control better the future operations of the business.

§ **150. Operating Expense.** When a business is organized the owner or owners know that certain expenses will be incurred through its operations; these include the cost of rent, salaries, advertising, insurance, and taxes. Expenses of this nature are usually referred to as operating expenses because they are necessary in the operations of the business and will occur in every fiscal period. Operating expenses may be classified into three groups: (a) those applicable to the buying of merchandise or service which the business sells; (b) those which refer to the general administration of the business; and (c) those applicable to the selling of the merchandise or service which the business sells.

BUYING EXPENSE ACCOUNT

§ **151. The Purpose of this Account** is to show the cost of purchasing merchandise. This includes the salaries of the buyer and his assistants, traveling expenses paid by the buyer, and any other expenses applicable to the purchase of merchandise. If an account is not kept with Buying Expense, the cost of buying merchandise is debited to the Administrative Expense account.

Debit the Buying Expense Account:

¶ 1. For all expenses incurred in connection with the purchase of merchandise.

Credit the Buying Expense Account:

¶ 2. For any adjustments which reduce the cost of purchasing merchandise as shown by the debit side.

¶ 3. *The Balance of the Buying Expense Account* shows the net cost of purchasing merchandise; it is shown on the Statement of Profit and Loss as one of the operating costs of the business.

SELLING EXPENSE ACCOUNT

§ **152. The Purpose of this Account** is to show the cost of selling merchandise. This includes the salaries of the sales manager and his assistants, sales clerks, and traveling salesmen; expenses of the sales manager, his assistants, and traveling salesmen in connection with making sales; advertising cost, insurance on merchandise and store fixtures, depreciation on store fixtures, and other selling costs of similar nature. The cost of delivering merchandise sold is a selling cost and is recorded in the Selling Expense account if an account is not kept with Delivery Expense. The owner needs to know the cost of selling goods because this cost should be a reasonable percentage of the sales.

Debit the Selling Expense Account:

¶ 1. For all expenses directly incurred in connection with the sales of merchandise.

Credit the Selling Expense Account:

¶ 2. For any adjustments which reduce the cost of selling merchandise as shown by the debit side.

¶ 3. *The Balance of the Selling Expense Account* shows the net cost of selling merchandise; it is shown on the Statement of Profit and Loss as one of the operating costs of the business (Illustration No. 93).

DELIVERY EXPENSE ACCOUNT

§ **153. The Purpose of this Account** is to show the cost of delivering merchandise sold; this includes the wages of drivers and chauffeurs, repairs on wagons or automobiles used in the delivery of merchandise, insurance and depreciation on delivery equipment, and any other costs applicable to the delivery of merchandise sold. Merchandise shipped by freight must be delivered to the railroad or steamship company and the cost of this delivery is a part of the delivery expense the same as the delivery of merchandise direct to the customer. The cost of delivering merchandise sold is a part of the selling expense and may be recorded in the Selling Expense account. The owner needs to know the cost of delivering merchandise sold because this should be a reasonable percentage of the sales; another reason is that he may determine the most economical method of making delivery.

Debit the Delivery Expense Account:

¶ 1. For all expenses directly incurred in connection with the delivery of merchandise.

Credit the Delivery Expense Account:

¶ 2. For any adjustments which reduce the cost of delivering merchandise as shown by the debit side.

¶ 3. *The Balance of the Delivery Expense Account* shows the net cost of delivering merchandise sold; it is shown on the Statement of Profit and Loss as one of the operating costs of the business (Illustration No. 93).

LOSS ON DOUBTFUL ACCOUNTS ACCOUNT

§ **154. The Purpose of this Account** is to show the amount which it is estimated will be lost on account of uncollectible accounts receivable. This account is opened at the close of the fiscal period when the estimated amount is recorded, and is closed into the Profit and Loss account when the ledger is closed. It remains in balance during the fiscal period.

Debit the Loss on Doubtful Accounts Account:

¶ 1. For the amount of estimated loss on accounts receivable.

Credit the Loss on Doubtful Accounts Account:

¶ 2. For the amount shown on the debit side at the time the ledger is closed.

¶ 3. *The Balance of the Loss on Doubtful Accounts Account* shows the loss resulting from the reserve for doubtful accounts (§ 162, ¶ 4). It is usually shown on the Statement of Profit and Loss as one of the selling expenses, because credit is extended through the sales department and this loss is the result of the extension of credit (Illustration No. 93).

ADMINISTRATIVE EXPENSE ACCOUNT

§ 155. **The Purpose of this Account** is to show the cost of administration to the business. This includes the salaries of the manager and his assistants, salaries of bookkeepers, stenographers, and other office assistants, rent, heat, light, postage for use in the office, insurance and depreciation on office equipment, taxes, repairs, and other operating expenses which are not applicable to the cost of buying, selling, or delivery. If the business owns its own home, insurance, depreciation, taxes, and repairs on buildings are also shown in this account unless a separate account is kept with Building Expense, in which case these costs are debited to the Building Expense account (§ 156). The management needs to know the cost of administering the affairs of the business because this should be a reasonable percentage of the sales.

Debit the Administrative Expense Acct.:

¶ 1. For all costs applicable to the administration of the business.

Credit the Administrative Expense Acct.:

¶ 2. For any adjustments which reduce the cost of administering the affairs of the business as shown by the debit side.

¶ 3. *The Balance of the Administrative Expense Account* shows the net cost of administration to the business; it is shown on the Statement of Profit and Loss as one of the operating costs of the business (Illustration No. 93).

BUILDING EXPENSE ACCOUNT

§ 156. **The Purpose of this Account** is to show the cost of maintaining the buildings owned by the business and occupied by it as a home. The cost of maintaining the buildings is one of the operating costs of the business of the same nature as rent.

Debit the Building Expense Account:

¶ 1. For amounts paid for maintaining the buildings, such as painting, papering, reroofing with the same kind of material, reflooring with the same kind of material, etc.

¶ 2. For insurance, taxes, and depreciation on the building.

Credit the Building Expense Account:

¶ 3. For adjustments which reduce the maintenance cost as shown by the debit side.

¶ 4. *The Balance of the Building Expense Account* shows the cost to the business of owning its own home; it is shown on the Statement of Profit and Loss as one of the operating costs of the business (Illustration No. 93).

If an income is derived through the rent of any part of the building, the amounts received as rent may be credited to the Building Expense account or to a special account with Building Revenue. The use of the building will determine the expense account affected by the cost of maintaining it; unless a number of departments are maintained, the cost of owning its own home may be regarded by the business as an administrative cost.

§ 157. **Non-operating Expense.** There are many expenses in connection with the operations of the business which may occur in one fiscal period but not in another; these include interest cost, the discount deducted by customers for prompt remittance for sales invoices, attorneys' fees for special purposes, and many other miscellaneous expenses. Interest Cost and Sales Discount are the two non-operating expense accounts discussed at this time.

INTEREST COST ACCOUNT

§ 158. **The Purpose of this Account** is to show the expenses incurred by the business through the premiums paid for the use of money, as explained in § 106. Interest cost is one of the expenses of the business because it represents a service cost (for the use of money) the same as salaries and rent.

Debit the Interest Cost Account:

¶ 1. For interest on accounts and notes payable.

Credit the Interest Cost Account:

¶ 2. For any adjustments which reduce the cost of interest shown by the debit side.

¶ 3. *The Balance of the Interest Cost Account* shows the net cost of interest to the business; it is shown on the Statement of Profit and Loss as a non-operating expense (Illustration No. 93).

SALES DISCOUNT ACCOUNT

§ 159. **The Purpose of this Account** is to show the net amount of discount resulting from customers paying sales invoices within the terms of discount. When remittance is received from a customer within the terms of discount, the amount received will be less than the amount debited to his account because of the discount deducted. One asset (the customer's account) is canceled with another asset (cash), but, since the amount of the latter is less than the former, there is a cost to the business for this collection. This cost may be regarded as reducing the returns from sales or as a deduction from income in the same manner as purchases discount may be regarded as reducing the cost of merchandise purchases or as a profit resulting from the business paying its bills promptly.*

Debit the Sales Discount Account:

¶ 1. For the discount deducted on sales when paid within the terms of the sales invoices.

Credit the Sales Discount Account:

¶ 2. For any adjustments which reduce the amount of discount deducted by customers as shown by the debit side.

¶ 3. *The Balance of the Sales Discount Account* shows the net amount of discount deducted by customers for the prompt payment of sales invoices during the time for which the record is kept. If the management regards sales discounts as a non-operating expense, it is shown as such on the Statement of Profit and Loss (Illustration No. 93); if sales discount is regarded as a deduction from the returns from sales, it is deducted from the gross sales on the Statement of Profit and Loss. It is usually deducted from the gross sales in the preparation of the income tax return. (Office Decision 146.—Sec. 234—Art. 561).

*Sales discount is treated as a non-operating expense in the exercises in this text and the practice sets, and as a deduction from gross sales on the income tax return.

Exercise No. 65, Sales and Sales Discount.

The Excelsior Mfg. Co., Providence, completed the following transactions with the Boot Shop, a customer in Springfield, during the first six months of 1923: Jan. 10, sale No. 26421, terms 3/10, n/30, $276.50; Jan. 19, received check from the Boot Shop in full of sale of the 10th; Mar. 6, sale No. 27491, terms 2/30, n/60, $279.60; Mar. 26, sale No. 27671, terms 4/10, n/60, $125.16; Apr. 5, received check from the Boot Shop in full of account; May 3, sale No. 30009, terms 2/30, n/60, $198.65; May 18, sale No. 31117, terms 1/10, n/30, $261.48; June 2, received check from the Boot Shop in full of account.

The student is required to (a) make in journal form the entries required to record the transactions on the books of the Excelsior Mfg. Co., allowing discount when check was received within the discount period, (b) post, and (c) take a Trial Balance of balances.

Exercise No. 66, Recording Transactions with Sales and Sales Discount.

Show (a) the entry in journal form when the sales invoice shown below was issued; (b) the entry in journal form when the check shown below was received in payment for the invoice, less discount; and (c) the posting of these entries to the proper accounts.

9120

June 14, 192

Mason Book & Stationery Co.,
4179 Main St.
Berwick, Pa.

2/10, n/30 PP 4th zone

10 rms. 8½ x 11 Penmanship Paper	1.20	12 00	
5 " Balance Sheet Paper	5.00	25 00	27 00
Postage			80
			27 80

Carbon Copy of Sales Invoice Subject to Discount.

PENNSYLVANIA.

BERWICK, PA. June 20 19 No. 189

60-713 THE BERWICK NATIONAL BANK 60-713

PAY TO South-Western Publishing Co.- - - OR ORDER $ 27.26

Twenty-seven and 26/100 - - - - - - - - - - - - - - - - DOLLARS

SAFE DEPOSIT BOXES FOR RENT

MASON BOOK AND STATIONERY CO.
per M. M. Mason

Check in Payment of Sales Invoice Less Discount.

Exercise No. 67, Recording Transactions with Expense.

Record direct in the accounts discussed in this chapter, the following transactions, performed by A. R. Pendleton & Co., wholesale merchants:

July 1. Paid rent, $250.00. (§ 155.)

2. Gave A. R. Pendleton a check for $48.50, expenses on a buying trip.

8. Gave Waite & McBride a check in payment for our note No. 11 due today, and $3.25 interest on the same.
9. Paid $2.25 express on shipment to an out-of-town customer, our agreement being to deliver the merchandise without extra charge.
11. Paid for the following services: telephone, $12.50; lighting, $18.30; repairs on delivery truck, $12.75.
12. Payroll: office, $280.00; store, $600.00; drivers, $150.00.
15. Paid the City Ice Co. $6.00, ice for water-cooler.
16. Bought ink, carbon paper and rubber stamps for use in the office, $10.00.
18. Received a cashier's check from the Merchants National Bank in payment for note left for collection, less 50c collection charges. (§ 155.)
19. Paid $3.50 for installing plate glass store window.
21. Returned a part of the office supplies purchased on the 16th and received credit for $1.50.
22. Paid the Times-Star $695.60 for advertising space.
25. Gave A. R. Pendleton a check for $21.75, expenses on a selling trip.
26. Payroll: office, $280.00; store, $600.00; drivers, $150.00.
28. Received a check from B. M. Lardner in full of account, less $6.38 discount.
29. Gave Harris Bros. our note in full of account; the face of this note included $5.15 interest.
31. Monthly payroll: purchasing agent, $150.00; traveling salesmen, $750.00; general manager, $300.00; advertising agent, $150.00. At the close of the fiscal period, the estimated depreciation is as follows: office equipment, $100.00; store fixtures, $225.00; delivery equipment, $450.00; The estimated loss on uncollectible accounts receivable is $135.60.

QUESTIONS

1. (a) Why does the business man need to know the cost of buying goods? (b) Would you consider it advisable to include the cost of buying as a part of the cost of merchandise purchased? (c) Why?
2. Why is it necessary to record the cost of hauling merchandise purchased from the station to the store separate from the cost of hauling merchandise sold from the store to the customer?
3. If the business owns its own home, will the balance of the Building Expense account be considered as the total cost of rent or will interest on the investment in the building be added?
4. Why are expenses classified as "operating" and "non-operating?"
5. Why do merchants deliver to their customers the merchandise sold?
6. Why is the delivery cost a part of the selling cost?
7. Under what conditions would it be advisable to record the cost of advertising separate from the selling cost?
8. Why is interest paid for the use of money an expense to the business?
9. (a) What are the two methods of showing sales discount on the Statement of Profit and Loss? (b) Explain each.
10. If a partner devotes his time equally to the buying and selling of merchandise, what accounts are debited for his salary?

Chapter XVII

CONTROLLING ACCOUNTS

The Purpose of this Chapter is to explain controlling accounts, one of the most important time-savers applicable to the work of the bookkeeper. The business man is interested in time-saving methods because they reduce the cost of operating his business; the bookkeeper is interested in time-saving methods because they increase his efficiency.

§ 160. A Controlling Account is one which represents in total the facts shown in detail in a number of other accounts. Controlling accounts are used most frequently with accounts receivable and accounts payable because a great number of accounts are required to record the transactions with customers and creditors. If the accounts with customers and creditors can be eliminated from the Trial Balance, the work of the bookkeeper in preparing the Trial Balance will be greatly reduced.

If there are in the ledger one hundred accounts with creditors and two hundred accounts with customers, and twenty-five accounts which relate to the operations of the business, the Trial Balance will contain 325 accounts; if the one hundred accounts with creditors can be represented by one account and the two hundred accounts with customers by one account, then the Trial Balance will contain only twenty-seven accounts. This elimination can be effected by having an account with Accounts Payable which will show in total the transactions recorded in all of the accounts with creditors, and an account with Accounts Receivable which will show in total the transactions recorded in all of the accounts with customers. When this plan is followed, it is customary to open the accounts with creditors and with customers in separate divisions of the main ledger or in separate ledgers.

The purpose of the controlling account is to save time in taking the Trial Balance and in checking the posting in case the Trial Balance does not balance. This is made clear by reference to Illustration No. 70 and the explanation in connection therewith.

ACCOUNTS RECEIVABLE ACCOUNT

§ 161. The Purpose of this Account is to show in total the detailed debits and credits to accounts with customers in another part of the same ledger or in a separate ledger. If all the transactions with customers are recorded in this account, it will not be necessary to show the various accounts with customers on the Trial Balance. This is a controlling account because it shows in total the transactions recorded in a group of related accounts. When only one ledger is needed for the accounts with customers, only one controlling account with Accounts Receivable is necessary. When the operations of the business are extensive, the accounts receivable ledgers may be grouped by territories, in which case the name of the controlling account will not be Accounts Receivable, but the territory represented by the accounts in the ledger as "City Ledger," "Texas Ledger," "California Ledger," "Southern Ledger," etc. It is not necessary to keep a separate controlling account with each ledger, as one controlling account may control several ledgers, but it is better to have a controlling account with each because of the time saved in detecting errors.

ACCOUNTS RECEIVABLE

1655.00	1005.00
3.50	203.10
3.25	1208.10
18.50	
1680.25	

Sales Journal

A - 500.00
B - 90.00
C - 140.00
C - 175.00
A - 30.00
D - 200.00
A - 60.00
B - 125.00
A - 300.00
D - 35.00
1655.00

Cash Book

D - 3.50
C - 3.25

General Journal

A - 18.50

A	
500.00	500.00
30.00	30.00
60.00	130.00
300.00	15.00
18.50	100.00
908.50	775.00

B	
90.00	90.00
125.00	25.00
215.00	2.70
	117.70

C	
140.00	50.00
175.00	60.00
3.25	50.90
318.25	160.90

D	
200.00	150.00
35.00	4.50
3.50	154.50
238.50	

Cash Book
(Accts. Rec. Column)

A - 500.00
B - 90.00
C - 50.00
A - 30.00
C - 60.00
B - 25.00
D - 150.00
A - 100.00
1005.00

General Journal
(Accts. Rec. Column)

A - 130.00
C - 50.90
D - 4.50
B - 2.70
A - 15.00
203.10

Accounts Receivable Ledger

A - Dr. $908.50, Cr. $775.00, Bal. $133.50
B - Dr. $215.00, Cr. $117.70, Bal. $ 97.30
C - Dr. $318.25, Cr. $160.90, Bal. $157.35
D - Dr. $238.50, Cr. $154.50, Bal. $ 84.00

Totals $1680.25 $1208.10 $ 472.15

Controlling Account

Accounts Receivable Dr. $1680.25
Accounts Receivable Cr. $1208.10

Balance $ 472.15

Illustration No. 70, Chart Showing Operation of a Controlling Account.

EXPLANATION. This chart contains a record of ten sales in the sales journal, two cash payments to customers in the cash book, one debit to a customer in the general journal, eight cash receipts from customers in the cash book, and five receipts of assets other than cash from customers in the general journal; also an account in the general ledger with Accounts Receivable, the separate accounts with the four customers in the accounts receivable ledger, and the proof of the subsidiary ledger at the end of the month. The red lines indicate posting from the books of original entry to the accounts in the accounts receivable ledger, the posting of the totals to the Accounts Receivable account in the general ledger, and the relation of the proof to the accounts in the accounts receivable ledger and the Accounts Receivable account in the general ledger. The dates are omitted and letters are used to indicate the names of the customers to conserve space. It is assumed that cash received from customers is entered in a special column on the receipts side of the cash book, and that credit amounts to customers recorded in the general journal are entered in a special column. The two amounts recorded on the payments side of the cash book are posted to accounts in the accounts receivable ledger and are posted separately to the controlling account; this is also true of the one amount recorded in the general journal as a debit to an account receivable.

Debit the Accounts Receivable Account:

¶ 1. For the total of the sales journal at the end of the month.

(If amounts to be debited to accounts in the accounts receivable ledger are recorded in the general journal or on the payments side of the cash book, each amount should be posted to the Accounts Receivable account at the time it is posted to the account in the accounts receivable ledger.)

Credit the Accounts Receivable Account:

¶ 2. For each amount recorded in the general journal or on the receipts side of the cash book as a credit to an account in the accounts receivable ledger; these amounts are usually of sufficient frequency to require a special column in each of these books of original entry, in which case the posting is at the end of the month.

¶ 3. *The Balance of the Accounts Receivable Account* shows the total due from all customers and must be the same as the total of the various balances shown in the accounts receivable ledger. It is a current asset and is shown as such on the Balance Sheet, being listed after Cash and Notes Receivable (Ill. No. 92).

¶ 4. *Accounts Receivable Proof.* The Trial Balance is made from the accounts in the general ledger, the balance of the Accounts Receivable account being used instead of the various balances of the accounts in the accounts receivable ledger. When the correctness of the posting to the general ledger has been proved by the Trial Balance, it is necessary to prove the correctness of the posting to the accounts in the accounts receivable ledger. The total of all the debit balances in the accounts receivable ledger less any credit balances should be the same as the balance of the Accounts Receivable account in the general ledger.

If a sale to a customer is recorded in the sales journal as $26.10 but is posted to the account in the accounts receivable ledger as $26.00, it is quite evident that there will be a discrepancy between the balance of the Accounts Receivable account in the general ledger and the total of the balances in the accounts receivable ledger. It is to detect errors of this nature that a proof is made of the posting to the accounts in the accounts receivable ledger.

RESERVE FOR DOUBTFUL ACCOUNTS ACCOUNT

§ 162. **The Purpose of this Account** is to show the reserve set up to take care of the possible loss resulting from failure to collect from customers. No matter how careful a credit man may be in extending credit, some of the accounts are almost sure to prove uncollectible. Unless this is taken into consideration at the time the Balance Sheet is prepared, the report to the management will show an inflated value for the asset Accounts Receivable.

While the amount of the reserve may be more or less than is necessary to take care of the loss due to uncollectible accounts, yet it does indicate to the management that this loss has been taken care of as far as possible. The reserve is usually based on a percentage of the total sales on account or the total amount due from customers at the close of the period. The 1921 Revenue Act provides a deduction for "debts ascertained to be worthless and charged off within the taxable year (or, in the discretion of the Commissioner, a reasonable addition to a reserve for bad debts)."

Debit the Reserve for Doubtful Accounts Account:

¶ 1. For the amount that cannot be collected from a customer, whether it is a part or all of the balance of his account.

Credit the Reserve for Doubtful Accounts Account:

¶ 2. At the close of each fiscal period, for the amount of reserve designated by the owner or management of the business.

¶ 3. *The Balance of the Reserve for Doubtful Accounts Account* shows the net amount of the reserve available to take care of worthless accounts; it is shown on the Balance Sheet as a deduction from Accounts Receivable so that the management may know the amount due from customers, the estimated loss, and the net amount that it is expected will be collected.

¶ 4. *Entry to Set Up Reserve for Doubtful Accounts.* At the close of each fiscal period an entry is made in the general journal to record the estimated loss on doubtful accounts and to set up a reserve to take care of this loss. The Loss on Doubtful Accounts account (§ 154) is debited and the Reserve for Doubtful Accounts account credited. If the total amount owed the business by customers, as shown by the balance of the Accounts Receivable account, is $5,575.00, and it is estimated that one per cent of these accounts is uncollectible, the entry in journal form will appear as in the illustration below.

December 31, 19--

Loss on Doubtful Accounts	5575	
Reserve for Doubtful Accounts		5575
One per cent of accounts receivable set aside as a reserve for doubtful accounts		

The Loss on Doubtful Accounts account is regarded as a selling expense as explained in §154.

ACCOUNTS PAYABLE ACCOUNT

§ 163. The Purpose of this Account is to show in total the detailed debits and credits to accounts with creditors in another part of the same ledger or in a separate ledger. If all the transactions with creditors are recorded in this account, it will not be necessary to show the various accounts with creditors on the Trial Balance. This is a controlling account because it shows in total the transactions recorded in detail in a group of related accounts.

When the operations of the business are extensive and cover a wide territory, the accounts payable, like the accounts receivable, may be kept in separate ledgers, each of which is given a title designating a specific territory. A controlling account may be kept with each ledger or with a group of ledgers.

Debit the Accounts Payable Account:

¶ 1. For each amount recorded in the general journal or on the payments side of the cash book as a debit to an account in the accounts payable ledger; these amounts are usually of sufficient frequency to require a special column in each of these books of original entry, in which case the posting is at the end of the month.

Credit the Accounts Payable Account:

¶ 2. For the total of the purchases journal at the end of the month.

(If amounts to be credited to accounts in the accounts payable ledger are recorded in the general journal or on the receipts side of the cash book, each should be posted to the Accounts Payable account at the time it is posted to the account in the accounts payable ledger.)

¶ 3. *The Balance of the Accounts Payable Account* shows the total owed to all creditors and must be the same as the total of the various balances shown in the accounts payable ledger. It is a current liability and is shown as such on the Balance Sheet being listed after Notes Payable (Illustration No. 92).

¶ 4. *Accounts Payable Proof.* The accounts payable are proved in the same manner as accounts receivable. (§ 161, ¶ 4.)

Ledgers containing accounts with customers and with creditors are referred to as subsidiary ledgers. Only those accounts resulting from posting the sales journal and the purchases journal are opened in the subsidiary ledgers; other personal accounts resulting from sales and purchases of property belonging to the business are opened in the general ledger.

OUTLINE OF ACCOUNTS

§ 164. The Outline below includes those accounts required in connection with the recording of transactions in the C. W. Keeland & Co. practice set; references are given to the discussion of those accounts which have not been developed in this or preceding chapters. The classification is the same as that in the first division of this text.

OUTLINE OF ACCOUNTS USED IN THE PARTNERSHIP SET.

Current Assets	Cash. Merchandise Inventory. Notes Receivable. Accounts Receivable. Accrued Interest Earned (§ 193).
Fixed Assets	Land. Buildings. Office Equipment. Store Fixtures. Delivery Equipment.
Deferred Charges to Operations	Office Supplies. Insurance.
Current Liabilities	Notes Payable. Accounts Payable. Accrued Wages (§ 197). Accrued Interest Cost (§ 201).
Reserves	Reserve for Depreciation of Office Equipment. Reserve for Depreciation of Store Fixtures. Reserve for Depreciation of Delivery Equipment. Reserve for Doubtful Accounts.
Capital	Partner, Capital. Partner, Personal.
Operating Income	Inventory. Purchases. Purchases Returns and Allowances. Freight In. Sales. Sales Returns. Sales Allowances.
Operating Expense	Selling Expense. Traveling Expense. Loss on Doubtful Accounts. Administrative Expense. Building Expense.
Non-Operating Income	Interest Earned. Sales Discount.
Non-Operating Expense	Interest Cost. Purchases Discount. Loss on Dead Horse (§ 157).

Exercise No. 68, Accounts Receivable Proof.

Sales Journal—May

2	W. D. Jayne	Springfield	Account	1	$ 450.00
3	R. W. Starling	St. Louis	"	2	185.50
5	C. H. Watt	Bristol	"	3	79.30
5	R. L. Sutherland	Richmond	"	4	328.40
8	O. R. Martin	Lincoln	"	5	211.15
9	R. W. Starling	St. Louis	"	6	137.50
12	J. A. Moore	Clifton	"	7	50.30
15	R. L. Sutherland	Richmond	"	8	293.35
19	C. H. Watt	Bristol	"	9	45.95
26	R. W. Starling	St. Louis	"	10	203.50
31	Sales, Cr.—	Accounts Receivable, Dr.			$1,984.95

The student is required (a) to post the individual sales to the customers' accounts in the accounts receivable ledger; (b) to post the total to the Accounts Receivable and Sales accounts; (c) to show the proof of the individual accounts with the Accounts Receivable account.

Exercise No. 69, Accounts Payable Proof.

Purchases Journal—May

3	Jemison & Co.	City	2% 10 days	1	$ 895.75
7	Jewell Tea Co.	St. Albans	account	2	50.00
7	Ralph O. Wells	City	account	3	573.20
9	Keaton Grocery Co.	Manchester	3% 10 days	4	1,542.18
14	Tracy & Tracy	Newport	1% 30 days	5	627.35
17	Keaton Grocery Co.	Manchester	3% 10 days	6	956.31
19	Jemison & Co.	City	2% 10 days	7	193.75
23	Tracy & Tracy	Newport	1% 30 days	8	359.40
26	Keaton Grocery Co.	Manchester	3% 10 days	9	1,894.26
28	Jewell Tea Co.	St. Albans	account	10	75.00
31	Purchases, Dr.—	Accounts Payable, Cr.			$7,167.20

The student is required (a) to post the individual purchases to the creditors' accounts in the accounts payable ledger; (b) to post the total to the Purchases and Accounts Payable accounts; (c) to show the proof of the individual accounts with the Accounts Payable account.

Exercise No. 70, Construction of Charts for Controlling Accounts.

Prepare two charts similar to Illustration No. 70, one for accounts receivable and the other for accounts payable, from the following transactions performed during the month of March by Cary & Burke, a partnership engaged in selling woolen cloth. Use a sheet of paper 8½ x 11 inches for each chart, allowing two inches for the controlling account at the top, six inches for the personal accounts in the center, and two inches for the proof at the bottom. Complete all work with a pen unless permitted to use pencil.

Mar. 1. Purchased from Holbrook & Thoma, City, on account, merchandise, $1,298.50.

3. Purchased from the Spencer Woolen Mills Co., Taunton, terms, 2% 10 days, merchandise, $563.70. They prepaid the freight on this shipment, $4.95, which was added to the amount on the invoice.

(*Continued on page 175.*)

(*Exercise No. 70—Continued from page 174.*)

6. Paid Holbrook & Thoma $750.00 to apply on account.
7. Sold P. M. Penrod, 61 Ward Ave., City, on account, merchandise, $356.20.
8. Purchased from Holbrook & Thoma, City, terms, 1% 30 days, merchandise, $925.45.
9. Sold J. S. Henry, 2311 Park Ave., City, on account, merchandise, $85.00.
10. Received $200.00 from P. M. Penrod to apply on account.
11. Sold merchandise on account as follows:
    J. S. Henry, 2311 Park Ave., City, $112.50.
    O. J. Merrell, 126 Beatty St., City, $516.60.
    Received in part payment of the sale to O. J. Merrell a sixty-day note for $200.00, signed by D. P. Hart, dated January 25, with interest at 6% from date; allowed Mr. Merrell credit for the interest accrued on the note to date.
13. Paid the Spencer Woolen Mills Co. $557.38 in full for purchase of the 3d, less discount, and freight on the same.
    Sold J. S. Henry, 2311 Park Ave., City, 75c worth of cord which was purchased for use in the store. Charge this to his account.
14. Received $50.00 from J. S. Henry to apply on account.
    Sold O. J. Merrell, 126 Beatty St., City, on account, merchandise, $141.50.
    Received notice of credit from Holbrook & Thoma for $70.00, value of two bolts of cloth purchased on the 8th and returned per agreement.
16. Purchased from Bowman Bros., West End, on account, merchandise, $1,809.07.
18. Sold P. M. Penrod, 61 Ward Ave., City, on account, merchandise, $663.96.
    Notified Bowman Bros. of an error of $2.00 in making the extensions for purchase of the 16th, and received instructions from them to debit their account for this amount.
20. Received $141.50 from O. J. Merrell in full for sale of the 14th.
    Sold merchandise as follows:
    O. J. Merrell, 126 Beatty St., City, on account, $245.15.
    M. W. Grinnell, Silvergrove, terms, 2% 10 days, $1,514.80.
    Paid Bowman Bros. $750.00 to apply on account.
21. Received $100.00 from J. S. Henry to apply on sale of the 11th, and $500.00 from P. M. Penrod to apply on account.
    Paid Holbrook & Thoma $2,000.00 to apply on account.
22. Sold J. S. Henry, 2311 Park Ave., City, on account, merchandise, $125.60.
23. Purchased from the Spencer Woolen Mills Co., Taunton, terms, 2% 10 days, merchandise, $342.50. They prepaid freight on this shipment, $3.45, which was added to the amount on the invoice.
    O. J. Merrell reported that there was an error of $1.00 in his favor in the extensions for sale of the 20th. Debit his account with the $1.00.
24. Sold P. M. Penrod, 61 Ward Ave., City, on account, merchandise, $62.35.
    Allowed J. S. Henry credit for $35.00, value of one bolt of cloth sold him on the 22d and returned.
25. Sold J. S. Henry, 2311 Park Ave., City, on account, merchandise, $284.50.
    Received credit from the Spencer Woolen Mills Co. for $15.00 because part of the merchandise purchased from them on the 23d was 40 per cent cotton when our order specified all wool.
    Allowed P. M. Penrod credit for $5.00 on account of an error in our favor in extensions for sale of the 24th.
27. Purchased from Holbrook & Thoma, City, terms, 1% 30 days, merchandise, $1,625.85.

(*Concluded on page 176.*)

(*Exercise No. 70—Continued from page 175.*)

27. Sold J. S. Henry, 2311 Park Ave., City, 50c worth of stamps which were purchased for use in the store. Charge this to his account.
Received $12.50 from J. S. Henry in full for sale of the 11th, and $200.00 from P. M. Penrod to apply on sale of the 18th.
28. Accepted a thirty-day draft for $500.00, drawn on us by Bowman Bros., to apply on purchase of the 16th.
Received $315.10 from O. J. Merrell in full for sale of the 11th.
Sold J. S. Henry, 2311 Park Ave., City, on account, merchandise, $71.40. Per Mr. Henry's instructions, shipped this merchandise by prepaid express to A. B. Knox, Clinton; debit Mr. Henry's account with $1.40, cash paid for the express charges.
29. Received a check for $1,000.00 from M. W. Grinnell in part payment for sale of the 20th; allowed him discount on this payment per terms of the sale.
Sold P. M. Penrod, 61 Ward Ave., City, on account, merchandise, $427.89.
30. Received $100.00 from J. S. Henry to apply on account.
Received notice of credit from Holbrook & Thoma for $33.50, value of one bolt of cloth returned per agreement.
31. Sold M. W. Grinnell, Silvergrove, terms, 2% 10 days, merchandise, $165.75.
Received $90.60 from J. S. Henry in full for sale of the 22d, and $300.00 from P. M. Penrod to apply on sale of the 29th.

QUESTIONS

1. If there is a difference of 27c between the total of the balances in the accounts receivable ledger and the balance of the Accounts Receivable account in the general ledger, how will the bookkeeper locate the error?
2. If an account in the accounts receivable ledger which shows a balance of $10.00 is ruled, how will the bookkeeper discover the error?
3. If all the accounts in the accounts payable ledger are in balance, how will the Accounts Payable account in the general ledger appear?
4. If a creditor agrees to deliver merchandise purchased and, when this is received, the freight has not been paid, how will the check given the railroad company in payment for the freight be recorded and posted if a controlling account is kept with Accounts Payable?
5. If a customer requests that the freight on a shipment of merchandise sold to him be prepaid and charged to his account, how will the check given the railroad company in payment for this freight be recorded and posted if a controlling account is kept with Accounts Receivable?
6. In what way does the use of a controlling account with Accounts Receivable make the work of the bookkeeper more efficient?
7. Why are special columns provided in books of original entry for controlling accounts?
8. What special columns are required in the cash book and general journal when controlling accounts are kept with Accounts Receivable and Accounts Payable?
9. If a check is given in payment for freight on merchandise purchased and debited to the Freight In account, what effect does this have on the controlling account with Accounts Payable? Give reason for answer.
10. (a) If a creditor by request prepays the freight on merchandise purchased and includes the amount in the purchases invoice, how will the transaction be recorded and posted if a controlling account is kept with Accounts Payable? (b) How will the entry be made and posted if no controlling account is maintained?

Chapter XVIII

BOOKS OF ACCOUNT

The Purpose of this Chapter is to explain and illustrate the use of special columns in the cash book and general journal. The use of special columns is a great time-saver for the bookkeeper, hence should be understood by the student of bookkeeping. The explanation of special columns will enable the student to appreciate the time saved through the use of controlling accounts.

§ **165. The Books of Original Entry** usually required in connection with the recording of transactions for a mercantile business consist of a purchases journal, sales journal, cash book, and general journal. The purpose of each of these blanks is always the same, but the form of ruling may vary with the particular needs of the business. The books of account required in connection with the exercise at the conclusion of this chapter and the first practice set (C. W. Keeland & Co.) which is separate from this text, are explained and illustrated in the discussion which follows.

§ **166. The Purchases Journal** is a book of original entry in which purchases of merchandise are recorded (§ 38). The ruling in this book should be such that each purchase may be recorded on one horizontal line; this is usually the same as in Illustrations Nos. 17 and 25. If a record is to be kept of different classes of merchandise purchased or of the merchandise purchased for separate departments, a separate column may be provided for each class or department. If separate accounts are maintained with Purchases and Freight In, and prepaid freight charges are included in the invoice, the amount of the freight should be recorded in a special column for "Freight In" or by a separate entry in the general journal.

§ **167. The Sales Journal** is a book of original entry in which sales of merchandise are recorded (§ 40). If desired, the carbon copy of each sales invoice may be filed in a binder as one page in the sales journal; when this plan is followed, no ruled sales journal (Illustration No. 20) is necessary. Each customer's account in the accounts receivable ledger is debited with the amount of his purchase as shown by the carbon copy of the sales invoice rendered; at the end of the month the total of all the sales invoices is posted to the debit of the Accounts Receivable account and to the credit of the Sales account in the general ledger.

Each sales invoice should be numbered consecutively, the carbon copy having the same number as the sales invoice. The carbon copies should be filed in a binder in numerical order. Failure to record a sales invoice will not affect the Trial Balance, hence will not be detected unless the customer files complaint. If each sales invoice is numbered consecutively and copies are filed in a binder in regular order, omissions can be detected easily.

§ **168. The Cash Book.** As explained in § 43, cash received may be recorded in a cash receipts journal and cash paid in a cash payments journal, or cash receipts and payments may be recorded on opposite pages of one cash book, receipts on the left and payments on the right. All amounts received may be entered in one column on the receipts side of the cash book and all amounts paid in one column on the payments side as in Illustrations Nos. 22 and 23, or the transactions may be classified by the use of separate columns. This classification is especially desirable when controlling accounts are maintained with accounts receivable and with accounts payable. The reason for this is that the Accounts Receivable account in the general

ledger is credited with the total of the amounts credited to the accounts in the accounts receivable ledger, and the Accounts Payable account in the general ledger is debited with the total of the amounts debited to the accounts in the accounts payable ledger. If all the amounts affecting the controlling accounts are entered in special columns, the total of all the amounts in each special column can be posted at the end of the month.

Other special columns may be provided for recording transactions affecting cash sales, cash purchases, administrative expense, selling expense, etc. If the cash sales for each of the twenty-six business days in the month are recorded in one amount, twenty-six postings to the Sales account would be required; but if the cash sales for each day are recorded in a special column, the total of this column can be posted in one amount at the end of the month.

Cash

December, 19 — Receipts

Date	LF	Name of Account	Explanation	Accts Rec Cr	Sales Cr	General Cr
1	✓	Balance				4696 91
		Schott Decorating Co.	In full of acct.	60 05		
2	✓	Sales	Cash sales		35 75	
3	✓	Sales	" "		72 50	
6		J. H. Weber	In full inv. 11/5	101 75		
8	✓	Sales	Cash sales		90 75	
9		West Side Furn Exch.	On account	1 00		
11		O. H. Roth	In full of acct	308 38		
12	✓	Sales	Cash Sales		68	
15		Notes Receivable	J. H. Weber's note			201 50
		Interest Earned	On above note			2 02
				570 18	267	4900 43
16		West Side Furn Exch.	In full inv. 11/1	312 41		
30		Just Rite Furn Co.	In full of acct.	621 60		
				3226 74	860 65	5218 44
		Accounts Receivable, Cr.		3226 74		3226 74
		Sales, Cr.			860 65	860 65
		Cash, Dr. — 4608.92 (9305.83 - 4696.91)				9305 83

Illustration No. 71, Receipts Side of Cash Book with Special Columns.

EXPLANATION. The amount of cash received from a customer on account or in full of account is entered in the first column, cash received in payment for cash sales in the second column, and all other amounts of cash received in the third column. Each amount entered in the first column is posted to the credit of the account in the accounts receivable ledger written on the same line with it; the total of this column is posted to the credit of the Accounts Receivable account in the general ledger at the end of the month. Each amount entered in the second column is not posted, but the total of the column is posted to the credit of the Sales account at the end of the month. Each amount entered in the third column is posted to the credit of the account in the general ledger written on the same line with it; the totals of the first and second columns are extended into the third column as in the illustration, and the total of the three columns (less the balance at the beginning of the month) is posted to the debit of the Cash account in the general ledger at the end of the month.

*The break indicates a number of entries omitted.

Illustration No. 71 shows the receipts side of the cash book with three money columns, and Illustration No. 72 shows the payments side of the cash book with the same number of money columns; the use of each column is explained by the printed heading and the explanation of the illustration.

¶ 1. *To Prove Cash.* At the time it is desired to prove cash, each of the three columns on the receipts and payments sides of the cash book is footed in small pencil figures as in Illustrations Nos. 71 and 72. The total of the first and third columns on the payments side deducted from the total of the three columns on the receipts side should be the same as the cash in the bank plus that on hand if it is not all deposited. In practice it is customary to prove cash before depositing the checks and currency in the bank.

Cash

December, 19

Date	L.F.	Name of Account	Explanation	Payments: Accounts Payable Dr Net Amt	Pur Dis Cr	General Dr
1		Selling Expense	Rent, ware, garage 100.00 38.50			138 50
2		Selling Expense	Circulars			33 75
4		Brookville Furn Co.	In full of acct.	343	7	
5		Office Supplies	Stamps			10
		J. R. Gobel, Personal	For personal use			30
		W. H. Mitchell, Personal	" " "			30
15		Freight In	On merchandise			128 76
		C. H. Campbell Furn Co.	In full of inv. 11/10	158 03 170 374	1 202 3 477	185 101
17		J. R. Gobel, Personal	For personal use			40
31		Freight In	On merchandise	302 689	5 662	7 876 261 877
		Accounts Payable, Dr.		302 689		302 689
		Pur. Discount Cr.—Accts Payable, Dr			5 662	
		Cash Cr.				570 566
						930 583

Illustration No. 72, Payments Side of Cash Book with Special Columns.

EXPLANATION. The amount of cash paid a creditor on account or in full of account is entered in the first column, discount deducted for payment of purchases invoices within the discount period is entered in the second column, and all other amounts of cash paid in the third column. Each amount entered in the first and second columns is posted to the debit of the account in the accounts payable ledger written on the same line with it; the total of the first column is posted to the debit of the Accounts Payable account, and the total of the second column is posted to the credit of the Purchases Discount account and to the debit of the Accounts Payable account in the general ledger at the end of the month. Each amount entered in the third column is posted to the debit of the account in the general ledger written on the same line with it; the total of the first column is extended into the third column as in the illustration, and the total of these two columns is posted to the credit of the Cash account in the general ledger at the end of the month.

*The breaks indicate a number of entries omitted.

§ **169. General Journal.** When controlling accounts are maintained with accounts receivable and accounts payable, four columns are usually provided in the general journal as in the illustration below.

December 3, 19

Accts Pay Dr	General Dr	L.F.	Name of Accounts and Explanation	L.F.	General Cr.	Accts Rec. Cr.
	10115		Notes Receivable			
			C. E. Perry & Co.			10115
			Received in full of account their 30-day note dated Dec. 1, with interest at 6% from date.			
			5			
8			Kearn Furniture Co			
			Pur. Ret and Allow.		8	
			Returned one chair			
			9			
	1000		Notes Payable			
			Notes Payable		1000	
			Gave the bank our 60 day note in part payment of note for $2000.00 due today.			
			31			
	300		Notes Receivable			
			R. R. Phillips			300
			Received in full of invoice of Oct. 16 his 30 day note dated Dec. 14, with interest at 6% from date			
			31			
	200		Selling Expense			
	200		Administrative Expense			
			W. H. Mitchell, Pers		200	
			J. R. Gobel, Pers		200	
			Salary for the month			
1283	24997				29375	7622
1283	1283		Accts Pay. - Accts Rec.		7622	7622
	37297				37297	

Illustration No. 73, General Journal with Two Special Columns.

EXPLANATION. The two debit columns are ruled at the left and the two credit columns at the right to avoid errors in posting. The total of the two columns at the left should at all times equal the total of the two columns at the right. At the conclusion of each page these totals should be proved and forwarded; this proof should also be made before posting the totals of the "Accounts Payable, Dr." and "Accounts Receivable, Cr." columns at the end of the month.

*The break indicates a number of entries omitted.

The amount in each transaction which affects the debit side of an account in the accounts payable ledger is entered in the "Accounts Payable, Dr." column; the amount in each transaction which affects the credit side of an account in the accounts receivable ledger is entered in the "Accounts Receivable, Cr." column. This permits the posting of each amount to the proper account in the accounts payable or accounts receivable ledger at the time of entry, and the posting of the total of the special debit column to the Accounts Payable account and the total of the special credit column to the Accounts Receivable account at the end of the month. Illustration No. 73 shows one form of a special column journal.

§ 170. The Ledger. As explained in § 14, the ledger contains all the accounts necessary to show the complete record of the transactions performed. The accounts in the ledger should be arranged in the same order as they will appear on the Balance Sheet and Statement of Profit and Loss. The reason for this is that these reports are prepared from the Trial Balance, and the Trial Balance is made from the ledger. Illustration No. 88 shows a Trial Balance with the correct arrangement of the accounts.

When controlling accounts are maintained with accounts receivable and accounts payable, the individual accounts with customers and creditors should be kept in a separate division of the ledger or in separate ledgers; this will depend on the number of creditors from whom the business buys on account and the number of customers to whom the business sells on account.

§ 171. An Auxiliary Book is one which provides detailed information in regard to the transactions recorded in the books of original entry. Its purpose is to simplify the explanation in the books of original entry and to provide information which would not be available even though the explanation might be given in detail. The notes receivable book, notes payable book, bank check book, and insurance policy record are the auxiliary books discussed and illustrated in this chapter; additional auxiliary books will be explained in subsequent chapters.

§ 172. The Notes Receivable Book is an auxiliary book which contains detailed information in regard to notes and acceptances receivable. The ruling should provide columns for (a) the date, (b) the number, (c) the drawer or endorser, (d) the maker or drawee, (e) the payee, (f) where payable, (g) the date of paper, time, and due date, (h) the amount, (i) the rate of interest, (j) when paid, and (k) remarks. This arrangement permits full information in regard to a note or draft to be written on one horizontal line. Illustration No. 74 shows a popular form of ruling for the notes receivable book.

§ 173. The Notes Payable Book is an auxiliary book which contains detailed information relative to notes signed and drafts accepted by the business. The ruling should provide columns for (a) the date, (b) the number, (c) the drawer or endorser, (d) the maker or drawee, (e) the payee, (f) where payable, (g) the date of paper, time, and due date, (h) the amount, (i) the rate of interest, (j) when paid, and (k) remarks. This arrangement permits full information in regard to a note or draft to be written on one horizontal line. Illustration No. 75 shows a popular form of ruling for the notes payable book.

If desired, the notes receivable and payable books may be used as posting mediums, in which case one is referred to as the notes receivable journal and the other as the notes payable journal; these are explained and illustrated in a succeeding chapter.

§ 174. Insurance Policy Record. The purpose of this book is to provide a record of each insurance policy. The information in it should show (a) the date of the policy, (b) number, (c) name of the insurance company, (d) kind of property insured, (e) amount of the policy, (f) date of expiration, and (g) the premium paid for the policy. Additional columns should be provided for the

(*Continued on page 182*).

NOTES RECEIVABLE

Date Received		Our No.	Drawer or Endorser (Draft) (Note)	Maker or Drawee (Note) (Draft)	In Whose Favor (Payee)	Where Payable
Feb.	4	1	C. N. Simmons	K. N. Crowe	C. N. Simmons	2d Natl Bank
May	1	2		C. B. Jones	C. W. Keeland & Co	Security Bank
July	16	3		W. H. Ingram	C. W. Keeland & Co	1st Natl Bk Pittsburg
Oct	11	4	Hollingworth & Bane	Moses A. Palmer	Hollingworth & Bane	Union Bank
Oct	11	5		James B. Ford	C. W. Keeland & Co	Merchants Natl Bank
Nov	15	6	D. O. Osborne	R. M. Fisher	D. O. Osborne	" " "
Dec	1	7	C. W. Keeland & Co	Short Bros	Merchants Natl Bank	" " "
	11	8		D. R. Robbins	C. W. Keeland & Co	State Natl Bank

Illustration No. 74, Left Page of Notes Receivable Book.

EXPLANATION. Each note receivable or acceptance receivable is recorded on one line at the time it is received; the number given this may be used as the explanation of the entries in the general journal and cash book.

NOTES PAYABLE

Date		Our No.	Drawer or Endorser (Draft) (Note)	Maker or Drawee (Note) (Draft) (Payer)	In Whose Favor (Payee)	Where Payable
Mar	15	1		C. W. Keeland & Co	Hull Safe & Lock Co	Merchants Natl Bank
Apr	30	2	L. Fowler	" "	Merchants Natl Bank	" " "
May	25	3		" "	" "	" " "
Sept	10	4		" "	" "	" " "
Nov	1	5	Capital Grain Co	" "	Third Natl Bank Denver	" " "
	10	6		" "	Coal Creek Coal Co	" " "
	15	7	Western Hay Grain Co	" "	Merchants Natl Bank	" " "
Dec	10	8		" "	W. D. Allen Co	" " "

Illustration No. 75, Left Page of Notes Payable Book.

EXPLANATION. Each note signed by the business and each draft accepted by it is recorded in this book at the time of issue or acceptance; the number given each may be used as the explanation of the entries in the general journal and cash book.

INSURANCE POLICY RECORD.

Date of Policy		No	Name of Company	Property Insured	Amount	Expires	Premium
1922							
Jan	1	[illegible]53	Niagara Fire Ins Co	Mdse & Store Fixt	2000	Jan 1, 1923	2880
	1	[illegible]001	Royal Ins Co	Office Equip	400	Jan 1, 1923	576
Mar	1	[illegible]340	Preferred Accident	Delivery Equip	2000	Mar 1, 1923	7000
	1	17138	Cleveland National	Merchandise	[illegible]000	Mar 1, 1923	1440
Apr	1	91767	Aetna Ins Co		1000	Apr 1, 1923	1440
July	1	63111	Phoenix Ins Co		1500	July 1, 1923	2160
	1	111876	Ins Co of North America	Building	2500	July 1, 1923	3600

Illustration No. 76, Left Page of Insurance Policy Record.

EXPLANATION. The book is ruled so that all the information desired in connection with each policy may be recorded on one horizontal line. A description of the policy is written on the left-hand page, and the monthly value of the premium which expires is shown in the columns on the right-hand page. Premiums on policies which do not expire during the year in which the policies are issued, are distributed in the next year.

amount which expires during each month; with this information the bookkeeper can easily determine the value of the expired and unexpired insurance at the close of the fiscal period. The insurance which has expired during the year is debited to

NOTES RECEIVABLE

Date of Paper Year	Month and Day	Time to Run	When Due Year	Jan (1)	Feb (2)	Mch (3)	Apr (4)	May (5)	June (6)	July (7)	Aug (8)	Sept (9)	Oct (10)	Nov (11)	Dec (12)	Amount	Rate of Interest	When Paid	Remarks
19-	Jan 20	60	19-			21										718 50	6%	Mar 20 19-	Left at bank 3/15
19-	May 1	3 mos	19-								1					101 76	6%	Aug 1 19-	
19-	July 16	6 mos	19-	16												300	6%		
19-	Oct 10	90 days	19-	8												400	4%		
19-	Oct 9	30 days	19-											8		106 50		Oct 10 19-	Left at bank 10/5
19-	Nov 12	60 "	19-	11												445 65			
19-	Dec 1	60 "	19-	30												100			
19-	Dec 11	30 "	19-	10												100	6%		

Illustration No. 74, Right Page of Notes Receivable Book.

EXPLANATION. The total of the unpaid notes and acceptances should always equal the balance of the Notes Receivable account in the general ledger, also the total of the notes and acceptances in the safe and in the hands of agents for collection.

NOTES PAYABLE

Date of Paper Year	Month and Day	Time to Run	When Due Year	Jan (1)	Feb (2)	Mch (3)	Apr (4)	May (5)	June (6)	July (7)	Aug (8)	Sept (9)	Oct (10)	Nov (11)	Dec (12)	Amount	Rate of Interest	When Paid	Remarks
19-	Mar 15	90 days	19-						13							100		Apr 13 19-	
19-	Apr 30	30 "	19-					30								181 11		May 30 19-	
19-	May 25	6 mos	19-											25		1000 00		Nov 25 19-	
19-	Sept 10	4 "	19-	10												500	6%		
19-	Nov 1	3 days	19-											3		631 87		Nov 3 19-	
19-	Nov 10	90 "	19-		8											911 88			
19-	Nov 15	60 "	19-	14												69 51			
19-	Dec 10	90 "	19-			10										606	6%		

Illustration No. 75, Right Page of Notes Payable Book.

EXPLANATION. When a note or draft is paid, the date should be entered in the "When Paid" column. The total of the unpaid notes and drafts should at all times equal the balance of the Notes Payable account in the general ledger. A proof of this should be prepared monthly.

INSURANCE POLICY RECORD.

Monthly Expirations

Jan.	Feb	March	April	May	June	July	Aug	Sept.	Oct.	Nov	Dec	Amount carried Forward
2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	
.48	.48	.48	.48	.48	.48	.48	.48	.48	.48	.48	.48	
		5.83	5.83	5.83	5.83	5.83	5.83	5.83	5.83	5.84	5.84	11.68
		1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	2.40
			1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	3.60
						1.80	1.80	1.80	1.80	1.80	1.80	10.80
						3.00	3.00	3.00	3.00	3.00	3.00	18.00

Illustration No. 76, Right Page of Insurance Policy Record.

The distribution by months is shown only for the current year, the amount of unexpired premium being entered in the last column at the right. At the beginning of the next year, this unexpired premium will be distributed in the columns representing the months to which it is applicable. It is necessary to show the nature of the property insured because this determines the operating account affected; thus, expired insurance on delivery equipment and merchandise is debited to Selling Expense, expired insurance on office equipment to Administrative Expense, etc.

the proper operating accounts at the close of the year, at which time the bookkeeper should transfer the unexpired insurance to a new page in the insurance policy record. Illustration No. 76 shows a popular form of the insurance policy record.

§ **175. The Bank Check Book** contains blank checks to be used by the depositor for withdrawing funds deposited in the bank. The check book provided by the bank may contain one, two, or three blank checks to the page. Illustration No. 58 shows a check book with two checks to the page and with the bank account kept on the front of the check stub. The record on the front of the check stub is reconciled with the monthly bank statement as explained in § 80.

Exercise No. 71, Retail Furniture Business

The Trial Balance given below was taken from the books of Gobel & Mitchell, partners engaged in a retail furniture business. It shows the results of the operations of the business from January 1 to November 30.

Gobel & Mitchell, Trial Balance, November 30, 1922.

Cash (4)	$4,696.91	
Notes Receivable (7)	801.50	
Accounts Receivable (4)	4,118.76	
Reserve for Doubtful Accounts (4)	79.31	$ 101.76
Office Equipment (5)	650.00	
Reserve for Depreciation of Office Equip. (4)		30.00
Delivery Equipment (4)	4,000.00	
Reserve for Depreciation of Del. Equip. (4)		350.00
Building (4)	3,500.00	
Land (4)	2,500.00	
Office Supplies (5)	329.12	
Insurance (4)	401.60	
Notes Payable (6)		2,000.00
Accounts Payable (10)		3,021.51
J. R. Gobel, Capital (6)		15,376.50
J. R. Gobel, Personal (7)	20.00	
W. H. Mitchell, Capital (6)		15,376.50
W. H. Mitchell, Personal (7)		30.00
Sales (8)		37,431.44
Sales Returns (5)	107.00	
Sales Allowances (5)	51.89	
1921 Inventory (4)	18,522.45	
Purchases (7)	28,187.65	
Freight In (6)	2,107.56	
Purchases Returns and Allowances (6)		211.08
Selling Expense (15)	2,680.40	
Administrative Expense (12)	1,819.78	
Interest Earned (6)		42.19
Purchases Discount (5)		576.50
Commission (5)		118.50
Interest Cost (6)	51.20	
Sales Discount (6)	40.85	
	$74,665.98	$74,665.98

Notes Receivable:

Note signed by M. B. Wallace, dated July 12, due in six months, with interest at 6% from date $600.00

Note signed by J. H. Weber, dated October 15, due in sixty days, with interest at 6% from date 201.50

Accounts Receivable:

O. H. Roth (4)	406 Lincoln Ave., City	Oct. 15, 60 days	$ 311.50
J. H. Weber (5)	530 Craig St., City	Nov. 5, 30 days	101.75
West Side Furn. Exch. (4)	City	Nov. 1, account	412.41
Schott Decorating Co. (4)	Clifton	Nov. 15, account	60.05
C. E. Perry & Co. (4)	702 Pike St., City	Nov. 1, 30 days	101.15
S. A. Burkhart (4)	609 Market St., City	Nov. 10, 30 days	619.00
Just Rite Furn. Co. (4)	427 Elm St., City	Nov. 15, account	441.60
J. N. Hook & Co. (4)	13 W. 7th St., City	Nov. 20, account	118.70
W. A. Newman (4)	217 Delta Ave., City	Oct. 12, 30 days	217.60
R. R. Phillips (4)	Elmwood	Oct. 16, 60 days	300.00
E. E. Frank (4)	Reading	Oct. 2, 60 days	260.00
W. D. Wolfe (4)	2527 Erie Ave,. City	Nov. 20, 30 days	1,160.00
F. X. Vance (4)	15 Burnet Ave., City	Oct. 1, 30 days	15.00

Insurance Premiums Paid:

On merchandise, $205.15; on delivery equipment, $106.16; on building, $90.29; total, $401.60.

Notes Payable:

Note in favor of Merchants National Bank, dated October 10, due in sixty days, with interest at 6% from date..... $2,000.00

Accounts Payable:

C. H. Campbell Furn. Co. (6)	Shelbyville	Nov. 15, 2/30, n/60	$ 601.05
Hasselbarth-Wheton Co. (4)	Utica	Nov. 12, 2/30, n/60	201.70
The Robt. Mitchell Furn. Co. (4)	Cincinnati	Oct. 25, 60 days	475.00
The Brookville Furn. Co. (4)	Brookville	Nov. 5, 2/30, n/60	350.00
De Luxe Upholstery Co. (4)	Grand Rapids	Oct. 12, 60 days	800.00
Kearns Furniture Co. (5)	High Point	Nov. 30, 2/15, n/30	593.76

On ledger paper open an account with each account shown on the Trial Balance, allowing for each the number of lines indicated by the number in parenthesis after the name of the account. In the explanation column of the Notes Receivable, Notes Payable, and Insurance accounts write the special information in regard to the notes and insurance; the two notes due the business should be entered as separate amounts in the Notes Receivable account. Since there is a controlling account in the general ledger for accounts receivable and another for accounts payable, the individual accounts with customers and creditors will be opened on ledger sheets separate from the ones used for general ledger accounts.

The transactions for December are to be recorded in the purchases journal, sales journal, cash book, and general journal. Loose sheets of paper will be used, ruled similar to Illustrations Nos. 25, 26, 71, 72 and 73. The cash balance shown on the Trial Balance should be entered in the "General" column on the receipts side of the cash book before any transactions are recorded.

December

1. Gave the Werk Realty Co. a check for $100.00 in payment for rent of warehouse for December, and N. R. Hayes Garage a check for $38.50 in payment for November garage rent and repairs on delivery truck.
   Debit Selling Expense for both payments.
   Bought from the C. H. Campbell Furniture Co., Shelbyville, terms 2/20, n/60, furniture per purchases invoice No. 156, $320.00.
   Received a check from the Schott Decorating Co. in full of account.
2. Sold J. H. Weber, 530 Craig St., City, terms 30 days, 1 davenport, per sales invoice No. 851, $78.50.
   Gave the C. J. Krehbiel Co. a check for $33.75 in payment for 2,000 circulars

Received $35.75 for cash sales.

3. Received from C. E. Perry & Co. their note dated December 1, due in thirty days, with interest at 6% from date, in full of account.
Sold C. A. Anderson, Linwood, terms 60 days, 1 dining room suite per sales invoice No. 852, $525.00.
Received $72.50 for cash sales.

4. Gave the Brookville Furniture Co. a check in full of account, less discount.
Sold J. N. Hook & Co., 13 W. 17th St., City, terms account, 1 library table per sales invoice No. 853, $45.00.

5. Withdrew $70.00 from the bank and paid the following: stamps, for letters, $10.00; J. R. Gobel and W. H. Mitchell, each $30.00 for personal use.
Debit Office Supplies for the stamps purchased.
Returned to the Kearn Furniture Co. 1 chair, cost price, $8.00.

6. Received a check from J. H. Weber in payment for invoice dated Nov. 5.
Sold R. O. Burns, Richmond, terms 30 days, 1 kitchen cabinet per sales invoice No. 854, $85.00.
Withdrew $200.00 from the bank to pay the weekly pay roll as follows: office employees, $50.00; employees in selling department, $150.00.

8. Bought from the Brookville Furniture Co., Brookville, terms 2/30, n/60, furniture per purchases invoice No. 157, $675.00.
Received $90.75 for cash sales.

9. The note due at the bank today and interest on the same was paid as follows: note for $1,000.00 dated today, due in sixty days, and check for $1,030.00, balance due on the old note and interest on the new note at 6%.
Received $100.00 from West Side Furniture Exchange to apply on account.
Transferred from stock to the office, 1 table (cost, $28.00) and 3 chairs (cost, $4.00 each).

10. Sold C. E. Herzog, 2034 Eastern Ave., City, terms account, 6 dining room chairs per sales invoice No. 855, $40.00; Just Rite Furniture Co., City, terms account, 3 wardrobes per sales invoice No. 856, $180.00.
Bought from the Imperial Furniture Co., Grand Rapids, terms 2/15, n/30, furniture per purchases invoice No. 158, $520.00.

11. Received a check from O. H. Roth in full of account less 1% discount per special agreement.
Make the entry for the sales discount in the general journal.
Gave the Hasselbarth-Wheton Co. a check in full of account, less discount.

12. Sold S. A. Burkhart, 609 Market St., City, terms 30 days, 1 tea wagon per sales invoice No. 857, $18.00; C. U. Newton, 102 Front St., City, terms account, 1 upholstered rocker per sales invoice No. 858, $28.00.
Received $68.00 for cash sales.

13. Purchased an Underwood typewriter for $100.00. Gave in payment the old typewriter (cost $80.00, book value $60.00) and our check for $50.00.
Sold R. R. Phillips, Elmwood, terms 60 days, 1 oak buffet per sales invoice No. 859, $39.00; H. C. Kern, 253 Earnshaw Ave., City, terms account, 1 5-piece living room suite per sales invoice No. 860, $1,015.00.
Withdrew $200.00 from the bank to pay the weekly pay roll.
Gave the Kearns Furniture Co. a check in full of account, less credit for chair returned and less discount.

15. Bought from the Connersville Furniture Co., Connersville, terms 1/15, n/30, furniture per purchases invoice No. 159, $505.00.
Paid freight on furniture purchased, $128.76.
Bought from the Pounsford Stationery Co., City, terms account, miscellaneous office supplies, $28.75.
Enter in the general journal as this is not a purchase of merchandise.
Received a check from J. H. Weber in payment for note and interest, due on the 14th.

Gave the C. H. Campbell Furniture Co. a check in payment for invoice dated November 15, less discount.
Prove cash (balance, $2,182.86).

16. Sold L. A. Sanderson, Louisville, terms net 30 days, 1 dining room suite per sales invoice No. 861, $475.00.
H. C. Kern claimed that the armchair belonging to the living room suite sold him on the 13th was not up to standard. We allowed him a credit for $20.00, and put in a claim for this amount against the De Luxe Upholstery Co. from whom this furniture was purchased.
Only one entry is required at this time.
Received a check from the West Side Furniture Co. for balance due on invoice dated November 1.

17. Our attorney reported that the amount due from F. X. Vance is uncollectible.
Gave each partner $40.00 for personal use.
Received $187.65 for cash sales.

18. Received a credit bill from the De Luxe Upholstery Co. for $20.00, amount of claim which we filed on the 16th.
Gave C. H. Campbell Furniture Co. check in full of account, less discount.
E. E. Frank accepted our 10-day draft in full of account.

19. Gave the De Luxe Upholstery Co. our note dated today, due in thirty days, with interest at 6% from date, in full of account.
Sold J. H. Weber, 530 Craig St., City, terms 30 days, 1 chifforobe, $70.00, and 1 dressing table, $60.00, per sales invoice No. 862.

20. Received $101.60 for cash sales.
Withdrew $200.00 from the bank to pay the weekly pay roll.
Received a check from S. A. Burkhart in full for invoice dated November 10.

22. Gave the Daily Tribune a check for $50.00 in payment for advertisement.
Bought from Kreimer Bros. & Co., Cincinnati, terms 30 days, furniture per purchases invoice No. 160, $819.75.
Sold E. E. Frank, Reading, terms 60 days, 1 armchair per sales invoice No. 863, $26.00.

23. J. H. Weber returned the dressing table sold him on the 19th. Gave him credit for the selling price.
Received a check for $50.00 from the Delco-Light Co., local distributors of the "Frigidaire," in payment for commission on sales of these iceless refrigerators. These are not carried in stock, but commission is allowed on refrigerators sold.
Gave the Imperial Furniture Co. a check in full of account, less discount.
W. H. Mitchell sent to his home 1 library table and 1 rocker. Charge his Personal account with the cost price, $52.00.
Received $160.80 for cash sales.

24. Accepted a ten-day draft drawn on us by the Robt. Mitchell Furniture Co. in full of invoice dated October 25.
Received checks as follows: J. H. Weber, in payment for invoice dated December 2; C. E. Herzog, in full of account; H. C. Kern, in full of account less 1% discount per special agreement.

26. Received $68.00 for cash sales.
Paid $1.00 for telegram. Debit Administrative Expense.

27. Sold R. O. Burns, Richmond, terms 30 days net, 1 serving table per sales invoice No. 864, $16.00.
Received $8.01 from the C. & O. Ry., rebate on freight paid on the 15th.
Withdrew $418.00 from the bank to pay the following: pay roll, $200.00; W. H. Mitchell, $108.00, and J. R. Gobel, $110.00, for personal use.

29. Received check from E. E. Frank in payment for draft accepted on the 18th.
Received $75.60 for cash sales.
Sold O. H. Roth, 406 Lincoln Ave., City, terms net 60 days, 1 chiffonier per sales invoice No. 865, $43.00.

30. Bought from Hasselbarth-Wheton Co., Utica, terms 2/30, n/60, furniture per purchases invoice No. 161, $451.70.
Gave the Connersville Furniture Co. a check in full of account, less discount.
Received a check from the Just Rite Furniture Co. in full of account.

31. Received from R. R. Phillips his 30-day note dated December 14, with interest at 6% from date, in full of invoice dated October 16.
Paid freight on furniture purchased, $78.76.
Credit each partner's personal account with $200.00, salary for the month.
Debit § 155 for J. R. Gobel's salary and § 152 for W. H. Mitchell's salary.

When the foregoing transactions have been recorded, proceed as follows:

1. Prove cash (balance, $3,600.17).

2. Post from all books of original entry, including the totals of the special columns, and take a Trial Balance. Allow four lines for each new account opened. Retain the Trial Balance and all books of account for use in Exercise No. 80.

QUESTIONS

1. (a) What accounts are debited and credited with the total of the purchases journal at the end of the month when a controlling account is kept with Accounts Payable? (b) What accounts are affected if no controlling account is kept?
2. (a) What accounts are debited and credited with the total of the sales journal at the end of the month if a controlling account is kept with Accounts Receivable? (b) What accounts are affected if no controlling account is kept?
3. Why is the balance of cash on hand at the beginning of the month deducted from the total of all the columns on the receipts side of the cash book before posting the cash receipts for the month?
4. (a) If there are 312 business days during the year and cash sales are recorded on the receipts side of the cash book each day, how many entries will be required to record and post these cash sales if the Trial Balance is made monthly and a special column is provided for cash sales on the receipts side of the cash book? (b) How many entries would have been required, including the posting, if the special column had not been used?

   The term "entry" here refers to the writing of the amount for each cash sale and each total, both in the cash book and the ledger.
5. What entry will be required in the general journal for a $500.00 note received from S. J. Shook in full of account on January 9 if this note is described as No. 50 in the notes receivable book?
6. How does the bookkeeper prove that the notes payable record is correct as compared with the Notes Payable account?
7. If all cash received is deposited in the bank, what relation does the pass book have to the entries on the receipts side of the cash book?
8. How does the bookkeeper reconcile the bank statement with his bank account on the check stub?
9. What is the purpose of the insurance policy record?
10. Describe in detail the method of proving cash with a cash book ruled similar to Illustrations Nos. 71 and 72.

Chapter XIX

BUSINESS FORMS AND VOUCHERS

The Purpose of this Chapter is to explain and illustrate business forms and vouchers which have not been discussed in previous chapters. The student needs to understand the various business forms which represent transactions in business if he is to record the transactions correctly.

§ 176. Each Transaction is represented to the bookkeeper by a business form or voucher, as explained in Chapter IX. When the bookkeeper has recorded the transaction from the facts given in the business form, it is filed for future reference. The purchases order, invoice, receipt, deposit ticket, check, bank draft, cashier's check, money order, draft, and note were discussed and illustrated in previous chapters; others are explained and illustrated in this chapter.

§ 177. A Business Letter is a written communication relative to a transaction to be completed or confirming the completion of a transaction. The subject

C.W. KEELAND TELEPHONE 358 A.D. MUNSON

C.W. Keeland & Co.

DEALERS IN

Hay, Grain, Feed and Coal

WEIGHTS GUARANTEED TO BE AS REPRESENTED

CINCINNATI, OHIO, April 7, 192

Young & Doyle,
1306 Grand Ave.,
Cincinnati, Ohio.

Gentlemen:

Replying to your letter of this date asking for price on No. 2 Hay in carload lots, will quote you $15.00 per ton, delivered at your place of business. We have a car in the yards and can have it placed on your siding tomorrow.

Please advise us at once, as we could not make this price unless we were permitted to unload the car at your warehouse.

Sincerely,

C. W. KEELAND & CO.

S/K per C. W. Keeland

Illustration No. 77, Business Letter.

EXPLANATION. This letter is written on the letterhead of the firm and is a reply to an inquiry for price on hay in carload lots. The letter has been reduced about one-third in size.

matter in the business letter should be explicit and so arranged that the reader may easily interpret its meaning. If the nature of the letter is such that the facts given therein will be needed for the completion of the transaction or the interpretation of the transaction completed, a copy of the reply should be attached to the letter and filed for convenient reference. The answer to the business letter should not be written on the letter itself because this would necessitate its being returned, hence the writer would not have a copy of the letter or the answer in his files. No special form of business letter is necessary, but the arrangement should be such that the facts stated in the letter may be clearly set forth, as in Illustration No. 77.

§ **178. A Certified Check** is a personal check, payment of which is guaranteed by the bank authorized to pay it; this guarantee is effected by the cashier or other official of the bank writing across the face "Certified" together with the name and official title of the officer making certification. Without certification the holder of a check does not know that it will be paid upon presentation; with certification the holder knows that it will be paid upon presentation. The form of certification is shown in Illustration No. 78. The drawer or the holder of a check may have it certified. Certified checks are used as a bond to guarantee fulfillment of a contract, in settlement of notes payable at a bank other than the one on which the check is drawn, in payment of real estate when purchased, payment of judgment in courts, and in other cases where it is necessary for the holder to know that the check will be paid upon presentation.

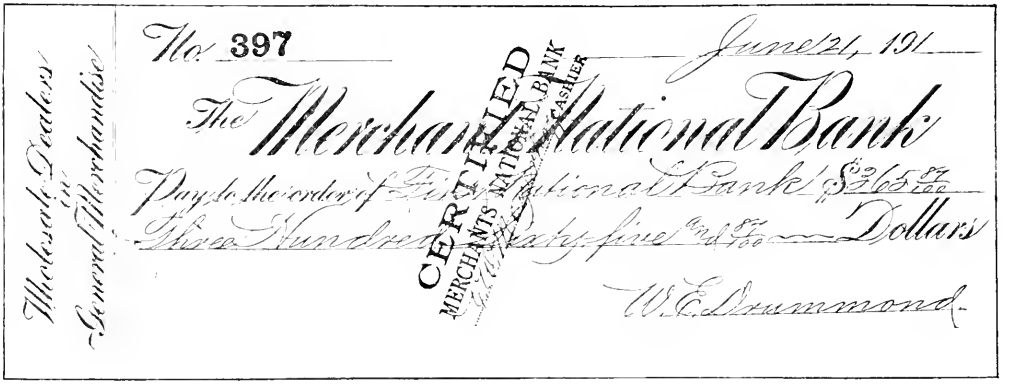


Illustration No. 78, Certified Check.

§ **179. A Bill of Lading** is the receipt issued by a transportation company for merchandise or other property received by it for shipment. The Interstate Commerce Commission, which has supervision of all railroads in the United States doing an interstate business, requires three copies of the bill of lading for each shipment, each copy to conform to the requirements imposed by the Commission. These three copies are described as "original", "shipping order," and "memorandum." The size is 8½ x 7 or 8½ x 11. See Illustration No. 79 on pages 191, 192, 193 and 195.

When a shipment is to be made by freight, the shipper prepares the three bills of lading; by the use of carbon paper the three copies may be made at the same time. The three forms are arranged in the following order: (1) original, (2) shipping order, and (3) memorandum. The original and shipping order are presented to the agent of the transportation company with the merchandise to be shipped, and, when this is accepted for shipment, they are signed by him. The agent retains the shipping order and the shipper retains the original. The original should be mailed to the consignee—that is, the one to whom the merchandise was shipped—because the merchandise in transit belongs to him and he holds the transportation company responsible for its delivery. If the merchandise is delivered

Uniform Domestic Straight Bill of Lading Adopted by Carriers, March 15, 1922

UNIFORM STRAIGHT BILL OF LADING
(PRESCRIBED BY THE INTERSTATE COMMERCE COMMISSION)
ORIGINAL---NOT NEGOTIABLE

Shipper's No. ....
Agent's No. ....

B. & O. S. W. Railroad **Company**

Received, subject to the classifications and tariffs in effect on the date of the issue of this Bill of Lading,
at Cincinnati, Ohio May 5, 192....
from C. W. Keeland & Co.
the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, and destined as indicated below, which said company (the word company being understood throughout this contract as meaning any person or corporation in possession of the property under the contract) agrees to carry to its usual place of delivery at said destination, if on its own road or its own water line, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions not prohibited by law, whether printed or written, herein contained, including the conditions on back hereof, which are hereby agreed to by the shipper and accepted for himself and his assigns.

(Mail or street address of consignee—for purposes of notification only.)

Consigned to W. H. Ingram 1873 Elm St.
Destination Pittsburgh State of Pa. County of Allegheny
Route Your line
(Delivering carrier) Car Initial Car No.

No. Packages	DESCRIPTION OF ARTICLES, SPECIAL MARKS, AND EXCEPTIONS	*WEIGHT (Subject to Correction)	Class or Rate	Check Column
60	scks. #1 Corn	6082#		
60	" #2 Corn	6114#		
60	" Oats	3849#		

If this shipment is to be delivered to the consignee without recourse on the consignor, the consignor shall sign the following statement:

The carrier shall not make delivery of this shipment without payment of freight and all other lawful charges. (*See section 7 of conditions.*)

(Signature of consignor.)

If charges are to be prepaid, write or stamp here, "To be Prepaid."

Received $
to apply in prepayment of the charges on the property described hereon.

Agent or Cashier.
Per
(The signature here acknowledges only the amount prepaid.)

Charges advanced:
$

*If the shipment moves between two ports by a carrier by water, the law requires that the bill of lading shall state whether it is "carrier's or shipper's weight."

NOTE.—Where the rate is dependent on value, shippers are required to state specifically in writing the agreed or declared value of the property.

The agreed or declared value of the property is hereby specifically stated by the shipper to be not exceeding per

C. W. Keeland & Co. *Shipper.* *Agent.*
Per L. E. Carr Per

Permanent post-office address of shipper 208 Commerce St., Cincinnati, Ohio.

Illustration No. 79, Original Straight Bill of Lading.

(For back, shipping order and memorandum see pages 192, 193 and 195.)

promptly and in good condition, the consignee may not be required to present the bill of lading, but, if it is received in "bad order" or is lost in transit, the consignee will have to submit the original bill of lading as evidence of his ownership of the merchandise. The transportation company will adjust with the consignee any claims for damages or loss to the merchandise while in transit.

The memorandum is retained by the shipper as evidence of the shipment. In case the merchandise shipped is not delivered promptly, the consignee may request the shipper to ask for a "tracer." This tracer is a written communication

CONTRACT TERMS AND CONDITIONS

Sec. 1. (a) The carrier or party in possession of any of the property herein described shall be liable as at common law for any loss thereof or damage thereto, except as hereinafter provided.

(b) No carrier or party in possession of all or any of the property herein described shall be liable for any loss thereof or damage thereto or delay caused by the act of God, the public enemy, the authority of law, or the act or default of the shipper or owner, or for natural shrinkage. The carrier's liability shall be that of warehouseman, only, for loss, damage, or delay caused by the occurring after the expiration of the free time allowed by tariffs lawfully on file (such free time to be computed as therein provided) after notice of the arrival of the property at destination or at the port of export (if intended for export) has been duly sent or given, and after placement of the property for delivery at destination, or tender of delivery of the property to the party entitled to receive it, has been made. Except in case of negligence of the carrier or party in possession (and the burden to prove freedom from such negligence shall be on the carrier or party in possession), the carrier or party in possession shall not be liable for loss damage, or delay occurring while the property is stopped and held in transit upon the request of the shipper, owner, or party entitled to make such request, or resulting from a defect or vice in the property, or for country damage to cotton, or from riots or strikes.

(c) In case of quarantine the property may be discharged at risk and expense of owners into quarantine depot or elsewhere, as required by quarantine regulations or authorities, or for the carrier's dispatch at nearest available point to carrier's judgment, and in any such case carrier's responsibility shall cease when property is so discharged or property may be returned by carrier at owner's expense to shipping point, earning freight both ways. Quarantine expenses of whatever nature or kind upon or in respect to property shall be borne by the owners of the property or be a lien thereon. The carrier shall not be liable for loss or damage occasioned by fumigation or disinfection or other acts required or done by quarantine regulations or authorities even though the same may have been done by carrier's officers, agents, or employees, nor for detention, loss, or damage of any kind occasioned by quarantine or the enforcement thereof. No carrier shall be liable, except in case of negligence, for any mistake or inaccuracy in any information furnished by the carrier, its agents, or officers, as to quarantine laws or regulations. The shipper shall hold the carriers harmless from any expense they may incur or damages they may be required to pay, by reason of the introduction of the property covered by this contract into any place against the quarantine laws or regulations in effect at such place.

Sec. 2. (a) No carrier is bound to transport said property by any particular train or vessel, or in time for any particular market or otherwise than with reasonable dispatch. Every carrier shall have the right in case of physical necessity to forward said property by any carrier or route between the point of shipment and the point of destination. It shall (except as prohibited by law, where a lower value than actual value has been represented in writing by the shipper or has been agreed upon in writing as the released value of the property as determined by the classification or tariffs upon which the rate is based) be liable for such loss or damage only as shall not exceed the amount of such actual value, and the claim for such loss or damage, if not paid shall be for the maximum amount to be recovered, whether or not such loss or damage occurs from negligence.

(b) Claims for loss, damage, or injury to property must be made in writing to the originating or delivering carrier or carriers issuing this bill of lading within six months after delivery of the property (or in case of export traffic, within nine months after delivery at port of export), or, in case of failure to make delivery, then within six months after a reasonable time (in case of export traffic) after a reasonable time for delivery has elapsed, provided that if such loss, damage, or injury was due to delay or damage while being loaded or unloaded, or damaged in transit by carelessness or negligence, then no notice of claim or filing of claim shall be required as a condition precedent to recovery. Suits for loss, damage, injury, or delay shall be instituted only within two years and one day after delivery of the property or in case of failure to make delivery, then within two years and one day after a reasonable time for delivery has elapsed: Provided, That in case the claim on which suit is based was made in writing within six months, or nine months in case of export traffic (whether or not filing of such claim is required as a condition precedent), and suit was instituted in time later than two years and one day after notice in writing is given by the carrier to the claimant that the carrier has disallowed the claim or any part or parts thereof specified in the notice.

(c) Any carrier or party liable on account of loss of or damage to any of the property shall have the full benefit of any insurance that may have been effected upon or on account of said property, so far as this shall not avoid the policies or contracts of insurance: Provided, That the carrier reimburse the claimant for the premium paid thereon.

Sec. 3. Except where such service is required as the result of carrier's negligence, all property shall be subject to necessary cooperage and baling at owner's cost. Each carrier over whose route cotton or cotton linters is to be transported hereunder shall have the privilege, at its own cost and risk, of compressing the same for greater convenience in handling or forwarding, and shall not be held responsible for deviation or unavoidable delays in procuring such compression. Grain in bulk consigned to a point where there is a railroad public or licensed elevator, may (unless otherwise expressly noted herein, and then if it is not promptly unloaded) be there delivered and placed with other grain of the same kind and grade with not respect to ownership; and if so delivered, notice thereof shall be given to the consignee, and if so delivered shall be subject to a lien for elevator charges in addition to all other charges hereunder.

Sec. 4. (a) Property not removed by the party entitled to receive it within the free time allowed by tariffs lawfully on file (such free time to be computed as therein provided) after notice of the arrival of the property at destination or at the port of export (if intended for export) has been duly sent or given, and after placement of the property for delivery at destination has been made, may be kept in vessel, car, depot, warehouse or place of delivery of the carrier, subject to the tariff charge for storage and to carrier's responsibility as warehouse only, or at the option of the carrier, may be removed to and stored in a public or licensed warehouse at the place of delivery or other available place, at the cost of the owner, and there held without liability on the part of the carrier, and subject to a lien for all freight and other lawful charges, including a reasonable charge for storage.

(b) Where non-perishable property which has been transported to destination hereunder is refused by consignee or the party entitled to receive it or said consignee or party refuses to receive it fails to receive it within 15 days after notice of arrival shall have been duly sent or given the carrier may sell the same at public auction to the highest bidder, at such place as may be designated by the carrier: Provided, That the carrier shall have first mailed sent or given to the consignee notice that the property has been refused or remains unclaimed, as the case may be and that it will be subject to sale under the terms of the bill of lading if disposition be not arranged for, and shall have published notice containing a description of the property the name of the party to whom consigned, or, if shipped order notify, the name of the party to be notified, and the time and place of sale, once a week for two successive weeks, in a newspaper of general circulation at the place of sale or nearest place where such newspaper is published: Provided, That 30 days shall have elapsed before publication of notice of sale after said notice that the property was refused or remains unclaimed was mailed, sent or given.

(c) Where perishable property which has been transported hereunder to destination is refused by consignee or party entitled to receive it, or said consignee or party entitled to receive it shall fail to receive it promptly, the carrier may, in its discretion, to prevent deterioration or further deterioration, sell the same to the best advantage at private or public sale: Provided, That if time serves for notification to the consignor or owner of the refusal of the property or the failure to receive it and request for disposition of the property, such notification shall be given, in such manner as the exercise of due diligence requires, before the property is sold.

(d) Where the procedure provided for in the two paragraphs last preceding is not possible, it is agreed that nothing contained in said paragraphs shall be construed to abridge the right of the carrier at its option to sell the property under such circumstances and in such manner as may be authorized by law.

(e) The proceeds of any sale made under this section shall be applied by the carrier to the payment of freight, demurrage, storage, and any other lawful charges and the expense of notice, advertisement, sale, and other necessary expense and of caring for and maintaining the property, if proper care of the same requires special expense, and should there be a balance it shall be paid to the owner of the property sold hereunder.

(f) Property declared to or taken from a station, wharf, or landing at which there is no regularly appointed freight agent shall be entirely at risk of owner after unloaded from cars or vessels or until loaded into cars or vessels, and, except in case of carrier's negligence, when received from or delivered to such stations, wharves, or landings shall be at owner's risk until the cars are attached to and after they are detached from locomotive or train or until loaded into and after unloaded from vessels.

Sec. 5. No carrier hereunder will carry or be liable in any way for any diamonds, specie, or for any articles of extraordinary value not specifically rated in the published classifications or tariffs unless a special agreement to do so and a stipulated value of the articles are indorsed hereon.

Sec. 6. Every party, whether principal or agent, shipping explosives or dangerous goods, without previous full written disclosure to the carrier of their nature, shall be liable for and indemnify the carrier against all loss or damage caused by such goods, and such goods may be warehoused at owner's risk and expense or destroyed without compensation.

Sec. 7. The owner of consignee shall pay the freight and average, if any, and all other lawful charges accruing on said property, but except in those instances where it may lawfully be authorized to do so, no carrier by railroad shall deliver or relinquish possession at destination of the property covered by this bill of lading until all tariff rates and charges thereon have been paid. The consignor shall be liable for the freight and all other lawful charges, except that if the consignor stipulates, by signature, in the space provided for that purpose on the face of this bill of lading that the carrier shall not make delivery without requiring payment of such charges and the carrier, contrary to such stipulation, shall make delivery without requiring such payment, the consignor shall not be liable for such charges. Nothing herein shall limit the right of the carrier to require at time of shipment the prepayment or guarantee of the charges. If upon inspection it is ascertained that the articles shipped are not those described in this bill of lading, the freight charges must be paid upon the articles actually shipped.

Sec. 8. If this bill of lading is issued on the order of the shipper, or his agent, in exchange or in substitution for another bill of lading, the shipper's signature to the prior bill of lading as to the statement of value or otherwise, or election of common law or bill of lading liability, in or in connection with such prior bill of lading, shall be considered a part of this bill of lading as fully as if the same were written or made in or in connection with this bill of lading.

Sec. 9. (a) If all or any part of said property is carried by water over any part of said route, such water carriage shall be performed subject to all the terms and provisions of, and all the exemptions from liability contained in, the Act of the Congress of the United States, approved on February 13, 1893, and entitled "An act relating to the navigation of vessels, etc.," and of other statutes of the United States according carriers by water the protection of limited liability, and to the conditions contained in this bill of lading not inconsistent therewith or with this section.

(b) No such carrier by water shall be liable for any loss or damage resulting from any fire happening to or on board the vessel, or from explosion, bursting of boilers or breakage of shafts, unless caused by the design or neglect of such carrier.

(c) If the owner shall have exercised due diligence in making the vessel in all respects seaworthy and properly manned, equipped, and supplied, no such carrier shall be liable for any loss or damage resulting from the perils of the lakes, seas, or other waters, or from latent defects in hull, machinery, or appurtenances whether existing prior to, at the time of, or after sailing, or from collision, stranding, or other accidents of navigation, or from prolongation of the voyage. And, when for any reason it is necessary, any vessel carrying any or all of the property herein described shall be at liberty to call at any port or ports, in or out of the customary route or to tow and be towed, to transfer, trans-ship, or lighter, to load and discharge goods at any time, to assist vessels in distress, to deviate for the purpose of saving life or property, and for docking and repairs. Except in case of negligence such carrier shall not be responsible for any loss or damage to property if it be necessary or is usual to carry the same upon deck.

(d) General average shall be payable according to York-Antwerp Rules, 1890, and as to any matter not therein provided for, according to the law and usage of the port of New York. If the owners shall have exercised due diligence to make the vessel in all respects seaworthy and properly manned, equipped and supplied, it is hereby agreed that in case of danger, damage or disaster resulting from faults or errors in navigation, or in the management of the vessel or from any latent or other defects in the vessel, her machinery or appurtenances, or from unseaworthiness, whether existing at the time of shipment or at the beginning of the voyage (provided the latent or other defects or the unseaworthiness was not discoverable by the exercise of due diligence), the shippers, consignees and/or owners of the cargo shall nevertheless pay salvage and any special charges incurred in respect of the cargo, and shall contribute with the shipowners in general average to the payment of such sacrifices, losses or expenses of a general average nature that may be made or incurred for the common benefit of or to relieve the adventure from any common peril.

(e) If the property is being carried under a tariff which provides that any carrier or carriers parts thereof shall be liable for loss from perils of the sea then as to such carrier or carriers the provisions of this section shall be modified in accordance with the tariff provisions, which shall be regarded as incorporated into the conditions of this bill of lading.

(f) The term "water carriage" in this section shall not be construed as including lighterage in or across rivers, harbors, or lakes, when performed by or on behalf of rail carriers.

Sec. 10. Any alteration, addition, or erasure in this bill of lading which shall be made without the special notation hereon of the agent of the carrier issuing this bill of lading, shall be without effect, and this bill of lading shall be enforceable according to its original tenor.

Illustration No. 79—Continued. Reverse Side of Straight Bill of Lading.
(For front of bill of lading, see page 191.)

from the agent who received the shipment to the agent to whom it is consigned, or the agents at transfer points between the shipping point and destination.

There are two forms of bill of lading, "straight" and "order." The straight bill of lading is used when the merchandise is shipped to the consignee on open account, or when he pays for the merchandise before it is shipped. The order bill of lading is used when the merchandise is shipped by freight collect on delivery; that is, when the consignee is not to have possession until he pays for the merchandise. Illustration No. 79 (pages 191, 192, 193 and 195) shows the three copies required in connection with a straight bill of lading; the order bill of lading is shown in Illustrations Nos. 84 and 85.

Uniform Domestic Straight Bill of Lading Adopted by Carriers, March 15, 1922

THIS SHIPPING ORDER must be legibly filled in, in Ink, in Indelible Pencil, or in Carbon, and retained by the Agent.

Shipper's No. ...

Agent's No. ...

B. & O. S. W. Railroad **Company**

RECEIVED, subject to the classifications and tariffs in effect on the date of the issue of this Shipping Order,

at Cincinnati, Ohio May 5, 192...

from C. W. Keeland & Co.,

the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, and destined as indicated below, which said company (the word company being understood throughout this ... as ... ing any person or corporation in possession of the property under the contract) agrees to carry to its usual place ... otherwise to ... another ... or ... te to said

EXPLANATION. The shipping order is the same size as the original bill of lading illustrated on page 191; it is not all repeated here because that part not shown is the same as on page 191.

§ 180. A Credit Bill is a receipt in invoice form, setting forth in detail the nature of the credit for which it is issued. A credit bill may be rendered for cash, merchandise returned, an allowance, service, or anything of value with which the account of the one to whom it is sent has been credited. The forms provided for credit bills are usually printed with a different colored ink from the sales invoice forms. Illustration No. 80 shows one form of credit bill.

May 7, 19..

W. H. Ingram,
1873 Elm St.,
Pittsburgh.

2500# No. 2 Corn (yellow) 2¢ 1 25

Error in bill charged on the 5th.

Illustration No. 80, Credit Bill.

§ 181. A Telegram is a communication or message sent by means of a telegraph company. The rate for transmitting a message is based on a minimum number of words and the time of sending. There are four classes of telegrams: the fast day message, day letter, night message, and night letter.

¶ 1. *A Fast Day Message* is accepted by the telegraph company to be sent as soon as received and delivered at its destination as soon as received. The rate is based on ten words with a fixed charge for each word in excess of ten. See Illustration No. 81.

¶ 2. *A Day Letter* is accepted by the telegraph company to be sent some time during the day and delivered when received at its destination. Fast day messages take precedence over day letters both in the sending and the delivering. The rate is based on fifty words with a fixed charge for each word in excess of fifty.
*

POSTAL TELEGRAPH – COMMERCIAL CABLES

CLARENCE H. MACKAY, PRESIDENT

TELEGRAM

THE POSTAL TELEGRAPH-CABLE COMPANY [INCORPORATED] TRANSMITS AND DELIVERS THIS MESSAGE SUBJECT TO THE TERMS AND CONDITIONS PRINTED ON THE BACK OF THIS BLANK.

CLASS OF SERVICE DESIRED	
FAST DAY TELEGRAM	X
NIGHT TELEGRAM	
NIGHT LETTERGRAM	

THE SENDER MUST MARK AN X OPPOSITE THE CLASS OF SERVICE DESIRED; OTHERWISE THE TELEGRAM WILL BE TRANSMITTED AS A FAST DAY TELEGRAM

RECEIVER'S NUMBER

CHECK

TIME FILED

SEND the following Telegram, subject to the terms on back hereof, which are hereby agreed to

Form 2

Cincinnati, Ohio., May 12, 192

Short Bros.,

Cleveland.

Number one corn sixty seven cents bushel f. o. b. cars here.

C. W. KEELAND & CO.

PREPAID

Illustration No. 81, Fast Day Message, ¶ 1.

¶ 3. *A Night Message* is accepted by the telegraph company to be sent during the night and delivered the next morning. The rate, which is based on ten words with a fixed charge for each word in excess of ten, is less than that for the fast day message.

¶ 4. *A Night Letter* is accepted by the telegraph company to be sent during the night and delivered the next morning. The rate, which is based on fifty words with an extra charge for each word in excess of fifty, is the same as that for the fast day message.

Form 1206A

CLASS OF SERVICE DESIRED	
Telegram	
Day Letter	
Night Message	
Night Letter	X

Patrons should mark an X opposite the class of service desired; OTHERWISE THE MESSAGE WILL BE TRANSMITTED AS A FULL-RATE TELEGRAM

WESTERN UNION TELEGRAPH CO.

TELEGRAM

NEWCOMB CARLTON, President GEORGE W. E. ATKINS, First Vice-President

Receiver's No.

Check

Time Filed

Send the following message, subject to the terms on back hereof, which are hereby agreed to

Cincinnati, Ohio, May 14, 192

Anderson, Peck & Fowler,

Clinton, N. Y.

Fast freight Short Bros., Cleveland, one car number one corn, and W. H. Ingram, Pittsburg, one car number one hay. Show freight rate on bill of lading sent each consignee. Send invoice to us and charge to our account. Advise us freight rate on each shipment.

C. W. KEELAND & CO.

PREPAID

Illustration No. 82, Night Letter, ¶ 4.

Uniform Domestic Straight Bill of Lading Adopted by Carriers, March 15, 1922

THIS MEMORANDUM is an acknowledgment that a Bill of Lading has been issued and is not the Original Bill of Lading, nor a copy or duplicate, covering the property named herein, and is intended solely for filing or record.

Shipper's No. .....

Agent's No. .....

B. & O. S. W. Railroad **Company**

RECEIVED, subject to the classifications and tariffs in effect on the date of the receipt by the carrier of the property described in the Original Bill of Lading,

at Cincinnati, Ohio May 5, 192

from C. W. Keeland & Co.

the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, and destined as indicated below, which said company (the word company being understood throughout this contract as meaning any person or corporation in possession of the property under the contract) agrees to carry to its usual place [illegible] destination [illegible]

EXPLANATION. The position of the three forms of the bill of lading is illustrated by pages 191, 193 and 195; these pages contain all the information for the three forms, that part omitted on forms two and three being shown on pages 191 and 192.

§ 182. Statement of Account. It is customary for business concerns to send each customer a statement of his account on the first of the month. The purpose of this statement is to permit the customer to audit his account and report any discrepancies. The information given on the statement is obtained from the ledger account with the customer to whom it is sent. The statement should show (a) the balance due from the customer at the beginning of the month, (b) the date and amount of each debit entry, (c) the date, nature, and amount of each credit entry, and (d) the balance due from the customer at the end of the month.

On the first of the month the business will usually receive a statement from each of its creditors showing the transactions completed during the month. The statement should be compared with the account with the creditor and errors reported promptly.

C. W. KEELAND FOLIO 2 MONTHLY STATEMENT OF ACCOUNT A. D. HUNSON

May 1 19

M J. W. Blackburn

IN ACCOUNT WITH 1219 Asylum St

C. W. KEELAND & CO

DEALERS IN

HAY, GRAIN, FEED AND COAL

INTEREST CHARGED ON ALL BILLS PAST DUE — ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

		Balance				
Apr	13	Mdse per Bill Rendered	28	05		
	22		49	10	77	15

C. W. KEELAND FOLIO 6 MONTHLY STATEMENT OF ACCOUNT A. D. HUNSON

June 1 19

M Quaid & McArmond

IN ACCOUNT WITH 1215 Asylum St

C. W. KEELAND & CO.

DEALERS IN

HAY, GRAIN, FEED AND COAL

INTEREST CHARGED ON ALL BILLS PAST DUE — ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

May	1	Balance	82	44		
	9	Mdse per Bill Rendered	82	81	165	25
		Cr				
	1	Cash	65			
	22		96	50	161	50
					3	75

Illustration No. 83, Statements of Account.

EXPLANATION. The statement at the left was prepared from a ledger account showing two debits and no credits and the one at the right from a ledger account showing a balance from a preceding month, a debit and two credits.

Exercise No. 72, Business Letters and Credit Bill

March 17, Rice Bros., Clinton, returned to the Julian Shoe Company, New York, six pairs shoes which were billed at $6.20 per pair in invoice of March 1. The shoes were returned because the sizes were not according to specifications in the order. Credit is asked for the value of the shoes.

1. Prepare on a sheet of paper 8½ inches by 11 inches, the letter which Rice Bros. would write, signed "Rice Bros." by your name.

2. Prepare on a sheet of paper 8½ inches by 11 inches, an answer to this letter under date of March 25, acknowledging receipt of the shoes and enclosing credit bill.

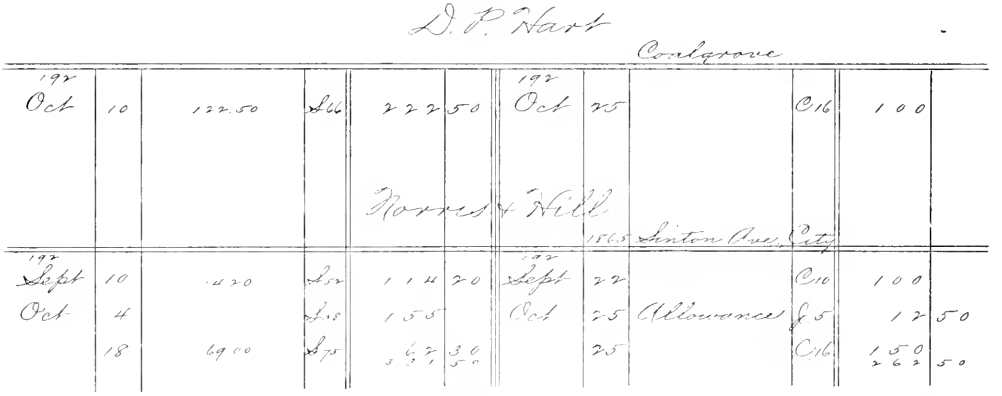
Exercise No. 73, Straight Bill of Lading.

July 7 the Evans Bros. Hardware Company, 519 Broadway, Cincinnati, shipped via B. & O. freight to Wolf & Church, 305 Main St., Marysville, Union County, Ohio, 10 kegs nails, 100 lbs. each; 1 case, 12 gal. paint, 125 lbs.; 1 case, 2 doz. picks, 75 lbs.; 1 bundle containing 2 doz. handles, 25 lbs.; 1 case containing 1 doz. shovels, 30 lbs.

Rule a sheet of paper similar to the illustration on page 191, and write on this in the proper position the information required to prepare the bill of lading for this shipment. It will not be necessary to make the two extra copies nor to copy the printing in the illustration.

Exercise No. 74, Statements of Account.

Render a monthly statement for each of the following accounts under date of November 1:



Use blank statements of account which may be purchased from a stationery store, or blank forms used by a local merchant; if neither of these is available, rule paper similar to one of the statements in Illustration No. 83. Use your name as the name of the merchant who is rendering the statements.

QUESTIONS

1. (a) Why should a copy of each letter written be retained? (b) Why should this copy be filed? (c) Why should the letter which it answers be filed with it?
2. (a) Why does a merchant send each of his customers a statement on the first of the month? (b) What facts are shown on each statement?
3. Why are statements of account usually rendered on the first of the month?
4. What term is used to describe the receipt issued by a transportation company for merchandise accepted by it for shipment?
5. Why are the railroad companies required to use a uniform size blank for issuing receipts for merchandise accepted for shipment?
6. What information should be given in the receipt issued by a transportation company for merchandise accepted for shipment?
7. Why would the City National Bank require certification of a check drawn on the First National Bank, and presented to it in payment for a note which it holds?
8. Why would it be advisable for an individual who wished to open an account with the bank, using a check as his first deposit, to have the check certified before presenting it for deposit?
9. Is there any distinction between the terms "business form" and "voucher?"
10. Why should the bookkeeper file each business form or voucher which serves as a basis for the bookkeeping record?

Chapter XX

GENERAL INFORMATION

The Purpose of this Chapter is to explain trade customs and bookkeeping procedure with which the student of bookkeeping should be familiar. The student cannot be expected to record correctly transactions involving discount because of prompt payment unless he thoroughly understands the subject of merchandise discount. Each student should know the method of procedure followed by experienced bookkeepers in detecting and correcting errors.

§ 183. Terms on Invoices. When merchandise is sold on account, a definite date of settlement is expressed or implied. If the date of settlement is not expressed, it is usually implied that the amount is due on the first of the following month. When a specific date of settlement is agreed upon, or when discount is allowed for payment within a specified time, this information is written on the invoice. Space is usually provided on the invoice after the word "Terms" for all information in regard to the terms of sale. Thus, "30 days" indicates that the amount of the invoice is due thirty days from the date of the invoice; "2/10, n/30" indicates that the full amount of the invoice is due thirty days from its date, but if the purchaser pays it within ten days from the date, a discount of 2% may be deducted from the amount of the invoice; an invoice rendered September 1 with "5/10, 3/30, n/60" written after "Terms" indicates that the seller has given the buyer sixty days from September 1 for full settlement of the invoice, or will allow a discount of 5% if paid within ten days or a discount of 3% if paid within thirty days from September 1.

§ 184. Payment of Invoice Subject to Discount. When the purchaser pays an invoice subject to discount within the terms of the purchases invoice, he ascertains the amount of the check by deducting from the amount of the invoice the discount mentioned in the terms. Thus, if the terms are 2% 10 days, and the amount of the invoice, $150.00, the check would be written for $147.00. The one issuing the check debits the firm to whom it is issued for the full amount of the invoice ($150.00), and credits Cash for amount of the check ($147.00) and Purchases Discount for the amount of the discount ($3.00). The one who receives this check debits Cash for the amount of the check ($147.00) and Sales Discount for the amount of the discount ($3.00), and credits the account with the drawer of the check for the full amount of the sale ($150.00).

If only a part of an invoice subject to discount is paid within the terms of the bill, the same accounts are affected, but it is necessary to divide in order to ascertain the amount with which the creditor's account is debited. Thus, if the amount of the payment is $98.00 and the terms are 2%, the creditor will be debited with $100.00 and he in turn will credit his customer with $100.00. It is necessary to divide because each 98c paid represents a dollar in value.

When an invoice subject to discount is paid in full, multiply the amount of the invoice by the discount mentioned in the terms to ascertain the amount of the discount. When a partial payment is made on an invoice subject to discount, divide the amount of the payment by 100% less the rate of discount; the quotient will be the amount to be debited to the creditor's account; the amount of the discount is ascertained by subtracting the payment from the amount debited to the creditor's account.

§ **185. Collecting Notes and Drafts.** The holder of a note or an accepted draft may require the maker or drawee to pay the note or acceptance at his office or at a bank. Where the holder and the maker reside in the same city, it is customary for the holder to leave the note for collection with the bank at which he does business. Where the holder resides in a different city from that of the maker or drawee, the collection may be made through the bank at which the holder does business or a bank in the same city in which the maker or drawee resides. As a rule the maker of a note will give the name of the bank at which he does business as the place of payment, and the drawee of a draft will accept it as payable at the bank which presents it for acceptance. When the name of the bank is specified in the note, the holder should leave the note or draft at this particular bank before the due date. The endorsement of a note or time draft left for collection should be qualified by writing "For collection" as explained in § 85, ¶ 4.

A sight draft is usually made payable to the bank which is to collect it—that is, the bank at which the customer does business or one in the same city. If the collecting bank collects the sight draft, the drawee retains the receipted draft as his receipt and the collecting bank pays the drawer with bank draft or cashier's check (§§ 81 and 82). If the drawee refuses to pay the sight draft, the bank returns it to the drawer.

It is customary for banks to charge a small fee for collecting notes, time drafts, and sight drafts. If this fee is paid by the holder it is an expense to him; the amount may be debited to Administrative Expense or to an account with Collection and Exchange.

§ **186. Exchange** is a term applicable to a sight draft drawn by one bank on funds deposited with another bank; it is sometimes referred to as a bank draft. Exchange takes its name from the city in which the bank on which it is drawn is located. A bank draft drawn on a bank in New York City is referred to as "New York exchange"; a bank draft drawn on a bank in Chicago, as "Chicago exchange," etc. When the bank on which the draft is drawn is located in the same country, the draft is designated as "domestic exchange"; when it is located in a foreign country, as "foreign exchange." Domestic exchange is represented by one draft; foreign exchange may be represented by one draft or three; if three drafts are drawn, each is sent by a different route with instructions to the effect that when one is paid the other two are not to be paid.

Exchange is due to the volume of business in the large cities. New York City sells far more merchandise to merchants throughout the world than the merchants throughout the world sell to New York City. By requiring each merchant who buys merchandise from New York to pay for the same with a check on a bank in New York, much time can be saved in the collection of these checks. Since business concerns in New York usually insist on customers paying their obligations with checks on banks in New York, practically every bank in the United States has funds on deposit with a New York bank so that the customers of the bank may be provided with New York exchange when they wish to purchase it for remitting to creditors in New York.

A small fee is usually charged by the bank issuing the exchange to cover the interest and the expense in connection with issuing the exchange. This charge is an expense to the purchaser of the exchange; it is debited to Administrative Expense or to an account with Collection and Exchange.

§ **187. C. O. D. Shipments.** When the purchaser agrees to pay for the merchandise on delivery, the terms are designated as "C. O. D.," an abbreviation of "cash on delivery." When the customer to whom the merchandise is sold on C. O. D. terms resides in the same city, collection can be made by the messenger who delivers the merchandise; if the customer resides in another city, it is necessary to have the transportation company collect for the merchandise before making delivery. The postmaster collects for C. O. D. parcel post shipments, the agent of

Uniform Domestic Order Bill of Lading Adopted by Carriers, March 15, 1922

UNIFORM ORDER BILL OF LADING
(PRESCRIBED BY THE INTERSTATE COMMERCE COMMISSION)

ORIGINAL

Shipper's No. .....

Agent's No. .....

New York, New Haven & Hartford Railroad **Company**

Received, subject to the classifications and tariffs in effect on the date of the issue of this Bill of Lading,

at Cincinnati, Ohio September 14 192....

from C. W. Keeland & Co.

the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, and destined as indicated below, which said company (the word company being understood throughout this contract as meaning any person or corporation in possession of the property under the contract) agrees to carry to its usual place of delivery at said destination, if on its own road or its own water line, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions not prohibited by law, whether printed or written, herein contained, including the conditions on back hereof, which are hereby agreed to by the shipper and accepted for himself and his assigns.

The surrender of this Original ORDER Bill of Lading properly indorsed shall be required before the delivery of the property. Inspection of property covered by this bill of lading will not be permitted unless provided by law or unless permission is indorsed on this original bill of lading or given in writing by the shipper.

(Mail or street address of consignee—For purposes of notification only.)
64 Public Sq., Huntsville, Ark.

Consigned to **ORDER OF** C. W. Keeland & Co.

Destination Huntsville, State of Arkansas County of Madison

Notify L. Jeffries & Co.

At Huntsville State of Arkansas County of Madison

Route Your line

(Delivering carrier) Car Initial. Car No.

No. Packages	DESCRIPTION OF ARTICLES, SPECIAL MARKS, AND EXCEPTIONS	*WEIGHT (Subject to Correction)	Class or Rate	Check Column
3	bbls. New Orleans Molasses	800#		
1	bbl. Corn Syrup	350#		
5	cases Coffee	500#		
4	bags Coffee	542#		
3	bdls. Wrapping Paper	128#		
10	cases N. C. Baking Powder	1105#		
15	bbls. Stick Candy	1604#		

If this shipment is to be delivered to the consignee without recourse on the consignor, the consignor shall sign the following statement:

The carrier shall not make delivery of this shipment without payment of freight and all other lawful charges. (*See section 7 of conditions.*)

(Signature of consignor)

If charges are to be prepaid, write or stamp here, "To be Prepaid."

Received $

to apply in prepayment of the charges on the property described hereon.

Agent or Cashier.

Per

(The signature here acknowledges only the amount prepaid.)

Charges advanced

$

*If the shipment moves between two ports by a carrier by water, the law requires that the bill of lading shall state whether it is "carrier's or shipper's weight."

NOTE.—Where the rate is dependent on value, shippers are required to state specifically in writing the agreed or declared value of the property.

The agreed or declared value of the property is hereby specifically stated by the shipper to be not exceeding per

C. W. KEELAND & CO. *Shipper* *Agent.*

Per L. E. Carr Per

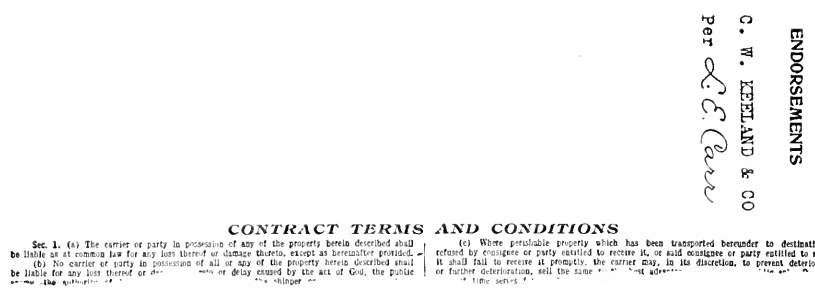
Permanent post-office address of shipper 208 Commerce St., Cincinnati, Ohio.

Illustration No. 84, Front of Order Bill of Lading.

EXPLANATION. This form is used when a shipment is sent by freight C. O. D.

the express company for C. O. D. express shipments, and the bank for C. O. D. freight shipments. When the terms are C. O. D. and the purchaser resides in another city, the seller should collect part payment; otherwise he may lose the transportation charges both ways should the shipment be refused and returned.

¶ 1. *Freight Shipments.* When a C. O. D. shipment is made by freight, the package is addressed to the shipper at the address of the consignee with a notation to notify the consignee. An "order" bill of lading (§ 179) is signed by the agent


ENDORSEMENTS

C. W. KELLAND & CO

Per C. C. Carr

CONTRACT TERMS AND CONDITIONS

Sec. 1. (a) The carrier or party in possession of any of the property herein described shall be liable as at common law for any loss thereof or damage thereto, except as hereinafter provided. (b) No carrier or party in possession of all or any of the property herein described shall be liable for any loss thereof or de[illegible] or delay caused by the act of God, the public [illegible] shipper [illegible]

(c) Where perishable property which has been transported hereunder to destination is refused by consignee or party entitled to receive it, or said consignee or party entitled to receive it shall fail to receive it promptly, the carrier may, in its discretion, to prevent deterioration or further deterioration, sell the same [illegible] best advantage [illegible] title secures [illegible]

Illustration No. 85, Reverse Side of Order Bill of Lading.

EXPLANATION. This shows the back of the order bill of lading with the endorsement necessary. The shipping order and memorandum are the same as those illustrated at the top of pages 193 and 195, hence are not repeated. That part of the conditions not shown in this illustration is the same as the conditions for the straight bill of lading on page 192.

of the receiving railroad and the merchandise forwarded to its destination, where it will be held by the agent of the railroad until the consignee presents the original bill of lading. The shipper must get this original bill of lading into the possession of the consignee, but at the same time he must secure payment for the merchandise before it is delivered; this is effected through a bank. The seller draws a sight draft for the amount of the sale, attaches it to the original bill of lading, and sends these for collection to a bank in the city where the purchaser resides. When the bank receives this draft and bill of lading, it notifies the drawee, who secures the bill of lading by paying the draft. The purchaser presents the original bill of lading to the agent of the railroad and receives the merchandise. The bank remits the amount of the draft to the seller. If the purchaser does not pay the draft, it will be returned to the drawer (seller) and the merchandise will remain in the possession of the agent until he receives instructions from the seller as to its disposition; this accounts for the suggestion that the seller collect a part of the value of the merchandise before making shipment.

The "order" and "straight" bills of lading are discussed in § 179. The form is practically the same except that the order bill of lading contains space on the back for the endorsement, as it is necessary for the shipper to endorse it in order to transfer title to the consignee.

¶ 2. *Express Shipments.* When a C. O. D. shipment is made by express, the express company will not deliver the merchandise until the purchaser pays the charges and value of the shipment. The sales invoice is not sent to the customer but is enclosed in an envelope (Illustration No. 86), which is attached to the package. When the merchandise arrives at its destination the express company agent will hold it until the consignee pays the amount of the invoice in the envelope. After the consignee has paid the amount of the invoice, he secures possession of the merchandise; the express company agent places in the envelope an express money order (Illustration No. 64) for the amount of the collection and returns the envelope to the shipper. The shipper should specify that the consignee is to pay the charges for issuing the money order sent in payment for the C. O. D. shipment; otherwise, the express agent issuing the same will deduct the amount from the amount of the invoice.

¶ 3. *Parcel Post Shipments.* When a C. O. D. shipment is made by parcel post, a special ticket provided by the Post Office Department is attached to the

C. W. Keeland & Co.

208 Commerce St.

Cincinnati

Ohio

C. B. Jackson

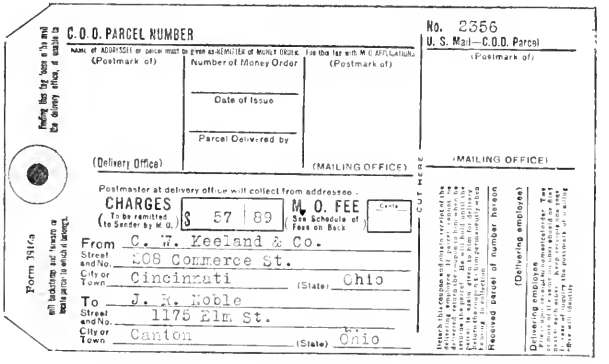
188 Wayne Blvd.

16789 Sumter, S. C.

Cincinnati, O. June 6

91.09
and

Illustration No. 86, Both Sides of C. O. D. Express Envelope.


C. O. D. PARCEL NUMBER

No. 2356

U. S. Mail—C.O.D. Parcel

(Postmark of)

Number of Money Order

Date of Issue

Parcel Delivered by

(Delivery Office)

(MAILING OFFICE)

Postmaster at delivery office will collect from addressee:

CHARGES (To be remitted to Sender by M. O.) $ 57 | 89

M. O. FEE (See Schedule of Fees on Back) Cents

From C. W. Keeland & Co.

Street and No. 208 Commerce St.

City or Town Cincinnati (State) Ohio

To J. R. Noble

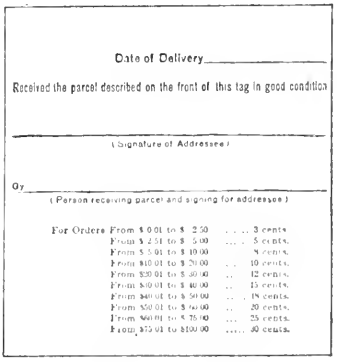
Street and No. 1175 Elm St.

City or Town Canton (State) Ohio

Received parcel of number hereon

(Delivering employee)

Form 3816a


Date of Delivery

Received the parcel described on the front of this tag in good condition

(Signature of Addressee)

By

(Person receiving parcel and signing for addressee)

For Orders From $ 0.01 to $ 2.50 . . . . 3 cents.
From $ 2.51 to $ 5.00 . . . . 5 cents.
From $ 5.01 to $ 10.00 . . . . 8 cents.
From $10.01 to $ 20.00 . . . . 10 cents.
From $20.01 to $ 30.00 . . . . 12 cents.
From $30.01 to $ 40.00 . . . . 15 cents.
From $40.01 to $ 50.00 . . . . 18 cents.
From $50.01 to $ 60.00 . . . . 20 cents.
From $60.01 to $ 75.00 . . . . 25 cents.
From $75.01 to $100.00 . . . . 30 cents.

Illustration No. 87, Both Sides of Tag for C. O. D. Parcel Post Shipment.

package. This ticket shows the amount to be collected before delivery is made. When the merchandise arrives at its destination, the postmaster at that point will not deliver it until the consignee pays the amount mentioned on the ticket. When the consignee pays for the merchandise, the postmaster will send the shipper a post-office money order for the amount of the sale.

§ 188. **Method of Recording C. O. D. Shipments.** When the terms are C. O. D., the sale is recorded in the sales journal in the same manner as a sale on account. The amount of the sale may be debited to the account with the customer or to a "C. O. D. Shipments" account. Since "C. O. D." applies to the terms of payment in the same manner as "3/10, n/30" applies to the terms of payment, it is the better practice, especially where the sales are made to regular customers, to record the amount of the sale in the account with the customer. When this plan is followed, it is necessary to keep a supplementary record of the C. O. D. shipments so that the bookkeeper may know at all times that the proper attention has been given to each shipment. When the value of C. O. D. shipments is recorded in an account with "C. O. D. Shipments," the name of the customer is written in the explanation column on the debit side of this account; when remittance is received for the shipment, the entry is made on the same line on the credit side. Where an account is kept with C. O. D. Shipments, it is best to have separate accounts with those made by freight, express, and parcel post, in which case the captions of the accounts may be "C. O. D. Freight Shipments," "C. O. D. Express Shipments," and "C. O. D. Parcel Post Shipments;" the caption may be the name of the railroad company, the local express company, or the post office.

§ 189. **How to Correct Errors.** Errors in recording transactions in a book of original entry or in posting should not be made, but when they occur, must be corrected. Errors in recording transactions in a book of original entry should be corrected by an entry in the general journal; errors in posting may be corrected by drawing a red line through the figures only and writing the correct amount above. Do not erase in a book of original entry.

§ 190. **Arrangement of Accounts in the Ledger.** The accounts in the ledger are arranged in the same order as they appear on the Balance Sheet and Statement of Profit and Loss to facilitate the preparation of these reports. This arrangement is shown in the illustrations of the ledger in this text and in the outline of accounts needed to record the transactions in the practice sets. Accounts with customers should be kept in an accounts receivable ledger and controlled by the Accounts Receivable account in the general ledger. Accounts with creditors should be kept in the accounts payable ledger and controlled by the Accounts Payable account in the general ledger.

§ 191. **Index to the Ledger.** The position of each account in a ledger should be indicated in the index so that the bookkeeper may readily locate it. The method of indexing will depend entirely upon whether a loose-leaf or bound ledger is used. No matter which form of ledger is used, the bookkeeper should indicate the location of a new account in the index at the time the account is opened; otherwise, he will be sure to have trouble locating it when the information recorded in the account is needed. The purpose of the discussion at this time is to impress the student with the importance of indexing at the time accounts are opened and not to describe the various forms of ledgers in use.

§ 192. Detecting Errors in a Trial Balance. If the Trial Balance does not balance it indicates an error in (1) posting, (2) additions or forwarding in the books of original entry, (3) additions or subtractions in the ledger, (4) transferring the amounts from the ledger to the Trial Balance, or (5) addition of the Trial Balance. The error can be detected only by checking the work; the process of checking should be the reverse of its completion—that is, (1) addition of the Trial Balance, (2) amounts transferred from the ledger to the Trial Balance, (3) additions and subtractions in the ledger, (4) additions and forwarding in the books of original entry, and (5) posting. The checking should be indicated by check marks similar to those in the illustrations of the books of original entry and ledger for the first month in the Model Set, Chapter VI.

The careful bookkeeper, before checking, will look for an amount equal to the error or to one-half the error, and ascertain if the amount is divisible by nine. Failure to post an amount equal to the error would result in the amount of the error. Posting an amount equal to one-half of the error, to the wrong side of an account, would result in the amount of the error. If the amount of the error is a multiple of nine (divisible by nine without a remainder), it may indicate transposed figures Any number composed of two figures, the difference between which is the same as the result of dividing the error by nine, when transposed, will give the amount of the error. Thus, if the Trial Balance is out of balance 45c, it may indicate that an amount of 5c has been posted as 50c, 16c as 61c, 27c as 72c, 38c as 83c, 49c as 94c, 50c as 5c, 61c as 16c, 72c as 27c, 83c as 38c or 94c as 49c. Forty-five divided by nine equals five; the difference between the first and second figures in each amount in the preceding sentence is five.

Exercise No. 75, Recording Transactions Involving Merchandise Discount.

The following transactions relative to purchases and sales of merchandise and payments and receipts thereon were completed during the months of April and May. Record these transactions in journal form (on a sheet of journal paper), post to the ledger and take a Trial Balance.

April 1. Bought from the L. H. Mabley Mfg. Co., Kalamazoo, merchandise per purchases invoice dated March 25, $162.95; terms, 3/10, n/30.
3. Sold M. D. Puterbaugh, City, merchandise per sales invoice of this date, $429.86; terms 4/10, n/30.
4. Sent the L. H. Mabley Mfg. Co., check for purchases invoice of March 25, less discount.
10. Bought from the Union Mfg. Co., Chicago, merchandise per purchases invoice dated April 7, $529.48; terms, 3/30, n/60.
13. Received a check from M. D. Puterbaugh for $200.00 to apply on sales invoice of April 3.
30. Bought from Anderson & Mumford, Crawfordsville, merchandise per purchases invoice dated April 28, $1,642.87; terms, 5/10, 3/30, n/60.

May 4. Sold Charles Crawford, City, merchandise per sales invoice of this date, $629.52; terms, 3/10, 2/30, n/90.
5. Sent the Union Mfg. Co., check in full for invoice of April 7.
6. Sent Anderson & Mumford check for $800.00 to apply on purchases invoice dated April 28.
10. Sold Wilbur York, City, merchandise per sales invoice of this date, $1,263.48; terms, May 20—2/10, 1/30, n/60.
14. Received a check from Charles Crawford for $200.00 to apply on sales invoice of May 4.
25. Bought from Davis Bros., Akron, merchandise per purchases invoice dated May 20, $2,992.50; terms, 4/10, 2/30, n/90.
26. Sent Anderson & Mumford a check for $776.74 in full of account.
28. Sent Davis Bros. a check for $1,000.00 to apply on purchases invoice dated May 20.
31. Received check for $150.00 from Charles Crawford to apply on sales invoice of May 4.

Exercise No. 76, C. O. D. Freight Shipment.

December 10 the Whitaker Paper Company received an order from Marsh Bros. of Atlanta for five dozen boxes of Christmas stationery to be shipped by freight, with instructions to rush the shipment and send C. O. D. unless it was desired to extend credit. The Whitaker Paper Company had had no previous dealings with Marsh Bros., and as it was a rush order, they sent it C. O. D. The sale was entered on December 11 as sales invoice No. 36475, total $82.50, the price being $16.50 per dozen. The draft and bill of lading were sent to the Atlanta National Bank for collection.

Prepare (a) the sales invoice; (b) the original bill of lading; (c) the draft payable at the Atlanta National Bank; and (d) show the marking on the case. Use blank paper ruled similar to Illustrations Nos. 50, 68, and 84 unless blank forms are available; the original only of the bill of lading need be prepared.

Exercise No. 77, Arrangement of Accounts.

Arrange the following accounts in the order in which they should appear in the ledger as explained in §§ 164 and 190.

J. W. Macon, Capital
Office Equipment
Interest Cost
Reserve for Depreciation of Delivery Equipment
Accounts Receivable
J. W. Macon, Personal
Administrative Expense
Sales
Reserve for Doubtful Accounts
Notes Payable
Purchases Discount
Cash
Delivery Equipment
Sales Returns
Freight In
J. B. Hill, Personal
Purchases
Sales Discount
Accounts Payable
Selling Expense
Interest Earned
Inventory
Notes Receivable
J. B. Hill, Capital
Sales Allowances
Purchases Returns and Allowances
Reserve for Depreciation of Office Equipment

QUESTIONS

1. What is the least amount that will be required to pay an invoice of $1,651.75, terms 3/10, 2/30, n/60?
2. What is the amount of the debit for a payment of $362.50 on an invoice, terms 3/10, n/60, the payment being made within ten days from the date of the invoice?
3. (a) What is the due date of an invoice with the terms Feb. 1, 1922, 3/10, n/60? (b) When should check be sent in payment of this invoice in order to secure the discount?
4. Why is it advisable for the drawer of a draft to make it payable at the bank where the drawee does business and send it to this bank for collection?
5. What procedure should John Smith of Chicago follow if he wishes to collect a note signed by Henry Jones of Atlanta, Georgia, made payable at the Atlanta National Bank?
6. Why do merchants and manufacturers in New York City require their customers to send checks payable on New York banks in payment for merchandise sold them?
7. Why will a bank in Dallas, Texas, accept a check payable on a bank in New York at its face value?
8. What will be the marking on a case of merchandise shipped by freight C. O. D. to A. R. Dodd, Hope, Ark., by Roberts Bros., Decatur, Ill.?
9. How does the seller collect for a C. O. D. freight shipment?
10. Why is it advisable to arrange the accounts in the ledger in the same order as they appear on the Balance Sheet and Statement of Profit and Loss?

Chapter XXI

ACCRUALS AND DEFERRED ITEMS

The Purpose of this Chapter is to explain the method of recording those assets and liabilities which are not shown by accounts at the close of the fiscal period. These are usually referred to as accrued assets, accrued liabilities, deferred charges to operation, and deferred credits to income. Accrued assets result from obligations owed to the business on account of income earned during the current fiscal period but not due and payable until a succeeding fiscal period. Accrued liabilities result from services rendered to the business during the current fiscal period but not due and payable until a succeeding period. Deferred charges to operation refer to property or services purchased by the business during the current fiscal period which will not be consumed until a succeeding fiscal period. Deferred credits to income refer to the income which has been received during the current fiscal period but which will not be earned until a succeeding fiscal period.

§ **193. Accrued Interest Earned** is an accrued asset resulting from accrued interest on interest-bearing notes which are not due and payable until a succeeding fiscal period, and on past-due notes and accounts receivable. This may be illustrated as follows: a note for $900.00, dated October 2, due in four months, with interest at 6% from date, is accepted from a customer in payment of his account. At the close of the fiscal period, December 31, this note is worth $913.50 (face of note $900.00, interest $13.50). When the Balance Sheet is prepared on December 31, the book value of the note, as recorded in the Notes Receivable account, is only $900.00 because the interest has not been recorded, it being customary not to record interest until collected. If the Balance Sheet is to show the true value of the assets belonging to the business and the true proprietorship of the business, it will be necessary to record the $13.50 interest and to show it on the Balance Sheet as a part of the assets. Interest accrued on notes receivable and accounts receivable is recorded at the close of the period in an account with Accrued Interest Earned.

ACCRUED INTEREST EARNED ACCOUNT

§ **194. The Purpose of this Account** is to show the asset resulting from accrued interest on notes receivable and accounts receivable. This account is opened only at the close of the fiscal period.

Debit the Accrued Interest Earned Account:	*Credit the Accrued Interest Earned Account:*
¶ 1. At the close of each fiscal period, for the amount of accrued interest on notes receivable and accounts receivable.	¶ 2. After the ledger is closed, for the amount shown on the debit side; or for the amount of accrued interest when collected in the next fiscal period.

¶ 3. *The Balance of the Accrued Interest Earned Account* shows the amount due the business for interest which has not been collected; it is one of the current assets of the business and is shown as such on the Balance Sheet (Ill. No. 92).

§ 195. Entry to Record Accrued Interest Earned. As explained in the preceding discussion, the amount of the accrued interest earned should be shown on the Balance Sheet in order to show the true assets and true proprietorship of the business. Since the facts shown on the Balance Sheet should also be recorded in accounts on the ledger, it is necessary to record the amount of the accrued interest in the general journal and post it to the proper account in the ledger; this entry is usually referred to as one of the adjusting entries (§ 46, ¶ 4) because its purpose is to record in an account the value of an asset which does not appear on the ledger. Applying this to the accrued interest in § 193, the record in the general journal will be as in the illustration below.

December 31, 19--

Accrued Interest Earned	13 50	
Interest Earned		13 50
Accrued interest on notes receivable		

Recording the asset Accrued Interest Earned increases the income from interest the same as if cash had been received for the interest. When this entry is posted, the $13.50 will appear as an asset on the debit side of the Accrued Interest Earned account, and as an income on the credit side of the Interest Earned account.

§ 196. Entry to Close the Accrued Interest Earned Account. The accrued interest earned may be allowed to remain in the Accrued Interest Earned account until the interest is collected, or the balance of this account may be transferred to the Interest Earned account by an entry in the general journal after the ledger is closed. The latter practice is possibly the better because it avoids the necessity of separating accrued interest earned from interest earned when notes or accounts affected by the accrued interest are collected in a subsequent period.

Referring to the illustration in § 195, if the accrued interest is allowed to remain in the Accrued Interest Earned account until the note is collected on February 2, the entry, in journal form, will be as in the illustration below.

February 2, 19--

Cash	918	
Notes Receivable		900
Interest Earned		4 50
Accrued Interest Earned		13 50
Received cash in payment for note and interest due today.		

If the balance of the Accrued Interest Earned account is transferred to the Interest Earned account after the ledger is closed, the entry will be as in the illustration below.

December 31, 19—

Interest Earned	13 50	
Accrued Interest Earned		13 50
To transfer the balance of the Accrued Interest Earned account to the Interest Earned account		

When the note is collected on February 2, the entry, in journal form, will be as in the illustration below.

February 2, 19—

Cash	918	
Notes Receivable		900
Interest Earned		18
Received cash in payment for note and interest due today		

A comparison of the Interest Earned account after each entry is posted, shows that the final results are the same. In the first case, the Interest Earned account is credited with $4.50; in the second case, the Interest Earned account is debited with $13.50 and credited with $18.00, showing a net credit balance of $4.50.

§ 197. **Accrued Wages** is an accrued liability which results when the close of the fiscal period occurs on a date different from the usual time of paying employees. This may be illustrated as follows: the weekly pay roll for Jenkins Bros., retail merchants, is $600.00, payable at the close of business on Saturday of each week. The end of the fiscal period is on Wednesday, December 31. If the Balance Sheet and Statement of Profit and Loss are to show the true results, the bookkeeper will either pay the employees on Wednesday evening, or show the $300.00 due them as a liability on the Balance Sheet and as an increase to the operating cost on the Statement of Profit and Loss. Since the employees are not concerned with the closing of the books and will not expect their wages before the usual time, it is customary to show the amount due the employees at the close of the fiscal period in an account with Accrued Wages.

ACCRUED WAGES ACCOUNT

§ 198. **The Purpose of this Account** is to show the amount due employees at the close of the fiscal period because the end of the fiscal period falls on a date different from that on which the pay roll is paid. This account is opened only at the close of the fiscal period.

Debit the Accrued Wages Account:

¶ 1. After the ledger is closed for the amount shown on the credit side; or for the accrued wages when paid.

Credit the Accrued Wages Account:

¶ 2. For the amount due employees at the close of the fiscal period.

¶ 3. *The Balance of the Accrued Wages Account* shows the amount due employees at the close of the fiscal period; it is a current liability and is shown as such on the Balance Sheet (Illustration No. 92).

§ **199. The Entry to Record Accrued Wages** is made in the general journal at the close of the fiscal period; it is regarded as one of the adjusting entries (§ 46, ¶ 4) because it places in the ledger a liability which has not been recorded. Referring to the pay roll for Jenkins Bros. mentioned in § 197 (assuming that $100.00 is for office employees, $50.00 for the buying department, and $150.00 for the selling department), the entry in the general journal necessary to record this liability will be as in the illustration below.

December 31, 19-

Buying Expense	50	
Selling Expense	150	
Administrative Expense	100	
Accrued Wages		300
Three days' wages due employees		

When this entry is posted, the $300.00 will appear on the credit side of the Accrued Wages account and the amounts applicable to the Buying Expense, Selling Expense, and Administrative Expense accounts will appear on the debit side of these accounts; consequently the ledger will show a liability and an operating cost of $300.00.

§ **200. Entry to Close the Accrued Wages Account.** The Accrued Wages account may be allowed to remain open until the wages have been paid and then debited with the amount for which it is credited, or the balance may be transferred to the operating accounts affected, after the ledger is closed. Since the pay roll will be paid in a few days after the books are closed, the amount is usually allowed to remain in the Accrued Wages account and this account closed when the pay roll is paid. Referring to the pay roll in § 197 and the entry in § 199, the required entry on Saturday, January 3, when the pay roll is paid, will be as in the illustration below.

January 3, 19-

Accrued Wages	300	
Buying Expense	50	
Selling Expense	150	
Administrative Expense	100	
Cash		600
Pay Roll for week ending January 3		

When this entry is posted, the Accrued Wages account will be in balance and only one-half of the pay roll for the week will be debited to the expense accounts, this being that part of the pay roll for the week which is applicable to the next fiscal period.

If the Accrued Wages account is closed after the ledger is closed, the post-closing entry necessary to transfer the balance of the Accrued Wages account to the proper operating accounts will be as in the illustration below.

December 31, 19--

Accrued Wages	300	
Buying Expense		50
Selling Expense		150
Administrative Expense		100
To close the Accrued Wages account		

When this entry is posted, the Accrued Wages account will be in balance and the amount of the accrued wages applicable to each of the expense accounts will appear on the credit side of that account. When the pay roll is paid on January 3, the entry, in journal form, will be as in the illustration below.

January 3, 19--

Buying Expense	100	
Selling Expense	300	
Administrative Expense	200	
Cash		600
Pay Roll for week ending January 3		

When this entry is posted, the full pay roll for the week will appear on the debit side of the expense accounts to which it is applicable, but there will be a credit to each of these accounts which makes the balance the same as when the Accrued Wages account is closed at the time the pay roll is paid. The student should post these entries and compare the results.

§ 201. Accrued Interest Cost is an accrued liability resulting from the accrued interest on interest-bearing notes issued by the business prior to the close of the fiscal period but not due and payable until a succeeding fiscal period, and on past-due notes and accounts payable. This may be illustrated as follows: December 1, the business borrows $5,000.00 from the bank on its note, due in ninety days, with interest at 6% from date. December 31, at the close of the fiscal period the amount of this indebtedness will have increased to $5,025.00 because of the accrued interest. If the Balance Sheet is to show the true amount of the liabilities owed by the business and the true proprietorship, it will be necessary to record the additional indebtedness of $25.00 and to show it on the Balance Sheet as a part of the liabilities. Interest accrued on notes payable and accounts payable is recorded at the close of the period in an account with Accrued Interest Cost.

*

ACCRUED INTEREST COST ACCOUNT

§ 202. **The Purpose of this Account** is to show the amount of accrued interest owed by the business at the close of the fiscal period because the notes to which it is applicable are not due or the accounts to which it is applicable are past due and unpaid. This account is opened only at the close of the fiscal period.

Debit the Accrued Interest Cost Acct.:

¶ 1. After the ledger is closed, for the amount shown on the credit side; or for the amount of accrued interest when paid in the next fiscal period.

Credit the Accrued Interest Cost Acct.:

¶ 2. At the close of each fiscal period, for the amount of accrued interest on notes payable and accounts payable.

¶ 3. *The Balance of the Accrued Interest Cost Account* shows the amount owed by the business for interest which has not been paid; it is a current liability and is shown as such on the Balance Sheet (Illustration No. 92).

§ 203. **Entry to Record Accrued Interest Cost.** At the close of the fiscal period, it is necessary to record in the general journal the amount of accrued interest cost. This entry is usually referred to as one of the adjusting entries (§ 46, ¶ 4) because its purpose is to record in an account in the ledger the amount of a liability which does not appear there. The entry in the general journal for the accrued interest mentioned in § 201 will be as in the illustration below.

December 31, 19--

Interest Cost	25	
Accrued Interest Cost		25
Accrued interest on notes payable		

Recording the liability Accrued Interest Cost increases the cost of interest the same as if cash had been paid for the interest. When this entry is posted, the $25.00 will appear as a liability on the credit side of the Accrued Interest Cost account, and as an expense on the debit side of the Interest Cost account.

§ 204. **Entry to Close the Accrued Interest Cost Account.** The accrued interest cost may be allowed to remain in the Accrued Interest Cost account until it is paid, or the balance of this account may be transferred to the Interest Cost account by an entry in the general journal after the ledger is closed. The latter practice is possibly the better because it avoids the necessity of separating accrued interest cost from interest cost when notes or accounts affected by the accrued interest are paid in a subsequent period.

Referring to the illustration in § 203, if the accrued interest is allowed to remain in the Accrued Interest Cost account until the note is paid on March 1, the entry required at that time, in journal form, will be as in the illustration below.

March 1, 19--

Notes Payable	5000	
Interest Cost	50	
Accrued Interest Cost	25	
Cash		5075
Paid note and interest due today.		

If the balance of the Accrued Interest Cost account is transferred to the Interest Cost account after the ledger is closed, the entry will be as in the illustration below.

December 31, 19--

Accrued Interest Cost	25	
Interest Cost		25
To transfer the balance of the Accrued Interest Cost account to the Interest Cost account		

When the note is paid on March 1, the entry, in journal form, will be as in the illustration below.

March 1, 19--

Notes Payable	5000	
Interest Cost	75	
Cash		5075
Paid note and interest due today		

A comparison of the Interest Cost account after each entry is posted will show that the final results are the same. In the first case, the Interest Cost account is debited with $50.00; in the second case, the Interest Cost account is credited with $25.00 and debited with $75.00, showing a net debit balance of $50.00.

§ **205. Deferred Charges to Operations** refer to (a) the value of property on hand at the close of the period which was purchased for use in the business and which will be consumed by its use, and (b) operating cost paid in advance.

Deferred charges applicable to material may be illustrated as follows: during the business year, office stationery and other supplies for use in the office have been purchased as needed, and their value debited to the Office Supplies account. At the close of the year, the balance of the Office Supplies account will show the net value of the supplies purchased, but it will not show the value of supplies consumed and supplies on hand. Consequently, it is necessary to ascertain the value by an inventory in the same manner as the value of merchandise in stock is ascertained. The value of the office supplies is shown on the Balance Sheet as an asset because it is something of value which will be used in the operations of the business during the next period.

Deferred charges applicable to operating cost paid in advance may be illustrated as follows: July 1, $100.00 is paid as premium for an insurance policy issued for one year. At the close of the fiscal period, December 31, one-half the value of this premium, or $50.00, remains as an asset to the business because the policy does not expire until June 30 of the following year. This asset must be shown on the Balance Sheet, otherwise the total assets and proprietorship will not show the true facts.

The asset referred to as a deferred charge is recorded in an account, but the amount recorded in the account shows the total cost and not the value of the

asset at the close of the fiscal period. In the case of insurance, the cost of the premium is debited to the Insurance account at the time it is paid; hence the balance of this account at the close of the fiscal period includes the cost of the insurance which has expired and the cost of the insurance which is yet to expire. For this reason the adjusting entry required to show the value of a deferred charge is made by taking out of the account the value of the property or service which has been used, thus leaving in the account the value of the property or service yet to be consumed. Insurance and Office Supplies are two accounts that require adjusting on account of deferred charges.

OFFICE SUPPLIES ACCOUNT

§ **206. The Purpose of this Account** is to show the cost of material purchased for use in the office which will be consumed by its use; this material includes office stationery, pens, ink, wastebaskets, etc. The value of this material on hand at the close of a fiscal period is ascertained by a physical inventory at cost, the same as the value of merchandise.

Debit the Office Supplies Account:

¶ 1. For amounts paid for supplies to be used in the office.

Credit the Office Supplies Account:

¶ 2. (a) For any adjustment which reduces the cost of office supplies as shown by the debit side; (b) for the value of office supplies used—the difference between the balance of this account and the inventory of office supplies.

¶ 3. *The Balance of the Office Supplies Account*, before the value of the supplies used has been entered on the credit side, shows the net cost of office supplies purchased; the balance of this account after the value of the material used has been entered, shows the value of office supplies on hand at the close of the fiscal period. This latter balance is one of the assets of the business and is shown as such on the Balance Sheet (Illustration No. 92).

Advertising Material and Shipping Room Material are two other accounts of the same nature as Office Supplies; the former contains a record of material purchased for advertising purposes, and the latter, material for use in packing the merchandise sold.

§ **207. Entry to Adjust the Office Supplies Account.** After the value of the office supplies on hand at the close of the fiscal period has been ascertained through an inventory, it is necessary to transfer to an operating account the cost of the material used, which is the difference between the inventory and the balance of the Office Supplies account. If the balance of the Office Supplies account is $1,200.00 and the inventory $287.50, the cost of the office supplies used is $912.50; the entry required to transfer this to the Administrative Expense account will be as in the illustration below.

December 31, 19—

Administrative Expense	912 50	
Office Supplies		912 50
Value of office supplies used		

INSURANCE ACCOUNT

§ 208. The Purpose of this Account is to show a record of the amount paid for insurance. Insurance is a protection afforded by insurance companies against loss due to fire, water, theft, etc. This protection is secured by the payment of a small fee to a company organized for the purpose of issuing insurance, the fee paid for the protection is usually referred to as the premium, and the written contract of the company agreeing to afford the protection, as the policy. The premium is paid in advance, usually for one year. The insured has the privilege of canceling the policy at any time, in which case he will receive a refund of a part of the premium paid. Each insurance policy should be recorded in the insurance policy record (§ 174).

Debit the Insurance Account:

¶ 1. For all insurance cost, which is the premium paid for insurance.

Credit the Insurance Account:

¶ 2. (a) For any adjustments which reduce the cost of insurance as shown by the debit side; (b) at the close of each fiscal period, for the insurance cost for the period as shown by the policy record.

¶ 3. *The Balance of the Insurance Account*, before the entry for expired insurance has been made, shows the net cost of insurance, and, after the expired insurance has been credited to the account, the value of the premiums on unexpired insurance. This latter balance of the Insurance account is one of the deferred charges and is shown as such on the Balance Sheet (Illustration No. 92).

§ 209. Entry to Adjust the Insurance Account. At the close of the fiscal period, it is necessary to take out of the Insurance account the value of the insurance expired as shown by the insurance policy record. The Insurance account will be credited for the value of this expired insurance but the accounts debited will depend on the nature of the property protected by the insurance. Insurance cost on office equipment is usually regarded as an administrative expense; insurance cost on merchandise, store fixtures and delivery equipment, as a selling expense; and insurance cost on buildings, as a building expense. For this reason it is necessary to determine the value of the expired insurance applicable to each kind of property before debiting the accounts which are to show this cost. Assuming that the total cost of insurance is $450.00 and the value of the unexpired insurance is $150.00, the entry would require a credit of $300.00 to the Insurance account and a debit of $300.00 to the operating accounts affected. If the expired insurance on merchandise, store fixtures and delivery equipment is $240.00, on office equipment $20.00, and on buildings $40.00, the entry will be as in the illustration below.

December 31, 19--

Selling Expense	240	
Administrative Expense	20	
Building Expense	40	
Insurance		300

Expired insurance on merchandise, store fixtures, delivery equipment, office equipment, and buildings.

When this entry is posted, the balance of the Insurance account will show the value of the unexpired insurance as recorded in the insurance policy record, and the operating cost due to the expiration of insurance premiums will be recorded in the proper expense accounts. The balance of the Insurance account will be shown on the Balance Sheet as one of the deferred charges to operations (Illustration No. 92).

§ **210. Deferred Credits to Income** refer to income collected in advance, all of which has not been earned at the close of the fiscal period. This may be illustrated as follows: Martin Bros. own a building at 220 Main Street in which their business is operated. They rent one floor to A. B. Smith for $100.00 per month, payable in advance on the 15th of each month. The income from this rent is credited to a Building Revenue account. At the close of the fiscal period, December 31, the Building Revenue account shows a credit of $100.00, rent for one month in advance collected on December 15. However, only one-half of the rent has been earned, the other $50.00 being applicable to the next period. Unless the unearned rent is taken out of the Building Revenue account, this account will show a profit of $50.00 more than has been earned during the current fiscal period. It is customary to record an item of this nature as a deferred credit to the income account which has been credited with the income. The caption of the account required to record the value of the unearned income from the rent collected in advance would be "Deferred Credit to Building Revenue."

DEFERRED CREDIT TO BUILDING REVENUE ACCOUNT

§ **211. The Purpose of this Account** is to show at the close of the fiscal period the rent collected in advance. It is opened only at the close of the fiscal period.

Debit the Deferred Credit to Building Revenue Account:

¶ 1. After the ledger is closed, for the amount shown on the credit side.

Credit the Deferred Credit to Building Revenue Account:

¶ 2. At the close of the fiscal period, for that part of the rent collected in advance which is applicable to the next period.

¶ 3. *The Balance of the Deferred Credit to Building Revenue Account* shows the amount of rent that is yet to be earned. It is regarded as a liability and is shown as such on the Balance Sheet, being listed after the current and fixed liabilities.

§ **212. Entry to Open the Deferred Credit to Building Revenue Account.** At the close of the fiscal period, it is necessary to record the amount of rent collected but not yet earned by the business. This entry is referred to as one of the adjusting entries (§ 46, ¶ 4) because its purpose is to record in an account in the ledger the value of a liability which does not appear there. The general journal entry for the rent collected in advance mentioned in § 210, will be as in the illustration below.

December 31 19--

Building Revenue 50
Deferred Credit to Bldg Revenue 50
Rent collected in advance

When this entry is posted, the $50.00 will appear on the credit side of the Deferred Credit to Building Revenue account and on the debit side of the Building Revenue account; consequently, the ledger will show a liability of $50.00 and a debit to an income account, of corresponding amount.

§ 213. Entry to Close the Deferred Credit to Building Revenue Account. After the ledger is closed, it is necessary to transfer the balance of the Deferred Credit to Building Revenue account to the Building Revenue account in order that the latter account may show in the next period only the income from rent applicable to that period. Applying this entry to the illustration in § 212, the record in the general journal will be as in the illustration below.

December 31, 192

Deferred Credit to Bldg Revenue	50	
Building Revenue		50
To transfer the balance of the Deferred Credit to Building Revenue account to the Building Revenue account		

When this entry is posted, the Deferred Credit to Building Revenue account will be in balance, and the amount of rent collected in advance, applicable to the next period, will appear on the credit side of the Building Revenue account.

Exercise No. 78, Accruals and Deferred Items.

At the close of the fiscal period June 30, the accruals and deferred items to be recorded on the books of J. H. Kilgour & Co. are as follows:

Interest accrued on notes receivable	$ 68.95
Insurance:	
Payments, per Insurance account:	
On merchandise, store fixtures and delivery equipment	482.65
On office equipment	43.75
On building	92.50
Unexpired, per insurance policy record:	
On merchandise, store fixtures and delivery equipment	96.60
On office equipment	11.50
On building	24.00
Office supplies:	
Total purchased per Office Supplies account	527.40
On hand per inventory	192.95
Interest accrued on notes payable	25.60

1. Make the adjusting entries (a) to record the accrued assets and liabilities, (b) to transfer the expired insurance to the proper operating accounts, and (c) to transfer the value of the office supplies used to the proper operating account.

2. Make the post-closing entries to transfer the accrued assets and liabilities to the proper operating accounts after the ledger is closed, under date of July 1.

Exercise No. 79, Accruals and Deferred Items.

At the close of the fiscal period, December 31, the accruals and deferred items to be recorded on the books of Wenger & Hoag are as follows:

Commission due from others for services rendered	$265.50
Insurance:	
Payments, per Insurance account:	
On merchandise, store fixtures, and delivery equipment	500.00
On office equipment	27.65
Unexpired, per insurance policy record:	
On merchandise, store fixtures, and delivery equipment	235.55
On office equipment	9.45
Rent for month due but not paid	150.00
Wages unpaid:	
Office employees	33.75
Employees in store	42.50

1. Make the adjusting entries (a) to record the accrued assets and liabilities, and (b) to transfer the expired insurance to the proper operating accounts.

2. Make the post-closing entries to transfer the accrued assets and liabilities to the proper operating accounts after the ledger is closed, under date of January 1.

QUESTIONS

1. Why is it necessary to record accrued interest earned and accrued interest cost at the close of the fiscal period?
2. How would magazine subscriptions collected in advance be recorded at the close of the fiscal period by the bookkeeper for the company publishing the magazine?
3. (a) If an account is kept with Advertising Material, what will the balance of this account show after the adjusting entry for advertising material in stock has been made at the close of the fiscal period? (b) How will the advertising material used be shown on the Statement of Profit and Loss? (c) How will the advertising material on hand be shown on the Balance Sheet?
4. Why is it necessary to describe the nature of the property insured when recording a policy in the insurance policy record?
5. If the value of office supplies in stock, $250.00, is not taken into consideration when preparing the Balance Sheet and Statement of Profit and Loss how will this affect the net income?
6. If $600.00 is paid for three months' rent in advance on December 1, how will the two months' prepaid rent be recorded at the close of the fiscal period December 31?
7. What entry may be made for accrued interest earned after the ledger is closed?
8. (a) What is the purpose of the Accrued Interest Cost account? (b) What is the difference between this account and the Accrued Interest Earned account?
9. Is there any difference between the merchandise in stock at the close of the fiscal period and the office supplies and advertising material in stock, from the viewpoint of one who is using this information as a basis for making a loan to the business owning the property?
10. What does the balance of the Office Supplies account show (a) before the inventory is recorded and (b) after the inventory is recorded?

Chapter XXII

ADJUSTING ENTRIES AND REPORTS

The Purpose of this Chapter is to present in pictorial form the work required of the bookkeeper at the close of the fiscal period. It is a Model Set with the books of original entry and accounts omitted. The principles involved have been discussed and illustrated in the preceding chapters.

§ 214. The Work Required at the close of the fiscal period is usually completed in the following order:

1. Trial Balance at the end of the month which closes the fiscal period.
2. Preparation of the list of inventories, accruals and reserves.
3. Adjusting entries in the general journal for the inventories, accruals and reserves, and the posting of these entries.
4. Trial Balance after the adjusting entries have been posted.
5. Preparation of the Balance Sheet.
6. Preparation of the Statement of Profit and Loss.
7. Recording and posting the closing entries.
8. Recording and posting the post-closing entries.
9. Post-closing Trial Balance.

If desired, the Trial Balance mentioned in paragraph 1 may be prepared on paper ruled with eight money columns—two for the debits and credits in the Trial Balance; two for the debit and credit adjustments; two for assets and liabilities; and two for income and costs. When this form is provided, the journal entries (paragraph 3) can be posted to the Adjustment columns and the assets, liabilities, costs and income extended into the other columns. When this plan is followed, the Trial Balance mentioned in paragraph 4 may be omitted. This method of procedure is discussed under the title "Working Sheet" in a subsequent chapter.

EXPLANATION OF ILLUSTRATIONS

§ 215. The Trial Balance at the close of the fiscal period in Illustration No. 88 shows the accounts in the ledger of C. W. Keeland & Co. on December 31, 1922. It is the same form as the Trial Balance taken at the close of each of the preceding eleven months. This Trial Balance shows the same facts as the Trial Balance in Illustration No. 5 and the other Trial Balances illustrated in previous chapters; that is, all the open accounts in the ledger. The only difference between this Trial Balance and the others illustrated in previous chapters is that the ledger from which this Trial Balance was taken contains a greater number of accounts.

§ 216. The List of Inventories, Accruals and Reserves in Illustration No. 89 shows information which is not shown by accounts on the Trial Balance, Illustration No. 88. The value of the merchandise in stock and the office supplies on hand was ascertained by a physical inventory. The amount of the accrued interest on notes receivable and notes payable was obtained from the interest-bearing notes not due until the next fiscal period; these amounts can be verified by reference to the notes receivable book, Illustration No. 74, and the notes payable book, Illustration No. 75. The amount of the expired and unexpired insurance was ascertained from the insurance policy record; this can be verified by reference to Illustration No. 76. The amount of accrued wages represents the wages due employees in the selling department for three days, the fiscal period ending on Wednesday and pay-day being on Saturday. The amount of accrued rent refers to the rent of the office which is not due until the first of the following month. The percentages for reserves set up on account of depreciation and loss on doubtful accounts were supplied by the management; these conform to the percentages permitted by the Collector of Internal Revenue in the preparation of the income

C. W. Keeland & Co.
Trial Balance, December 31, 1922

1 Cash	153717	
1 Notes Receivable	134565	
2 Accounts Receivable	735301	
2 Reserve for Doubtful Accounts	1001	1919
4 Office Equipment	480	
4 Reserve for Dep. of Office Equip.		24
5 Store Fixtures	204	
5 Reserve for Dep. of Store Fixtures		1020
6 Delivery Equipment	3000	
6 Reserve for Dep. of Delivery Equip.		300
7 Buildings	3000	
7 Reserve for Depreciation of Buildings		45
7 Land	4000	
8 Office Supplies	30175	
8 Insurance	19096	
9 Notes Payable		208139
9 Accounts Payable		179582
11 C. W. Keeland, Capital		5000
12 A. D. Munson, Capital		5000
13 Sales		2678312
13 Sales Returns	20171	
13 Sales Allowances	4191	
14 1921 Inventory	219871	
15 Purchases	1316154	
15 Freight In	71897	
15 Purchases Returns and Allowances		41185
16 Selling Expense	152065	
17 Administrative Expense	121784	
17 Building Expense	10719	
18 Interest Earned		15111
18 Purchases Discount		52036
19 Interest Cost	9172	
19 Sales Discount	64775	
	4214204	4214204
	4214204	4214204

Illustration No. 88, Trial Balance at the Close of the Fiscal Period

tax return. All the information given in this list is necessary in order that a Balance Sheet and Statement of Profit and Loss may be prepared which will show the management the true value of the assets, liabilities, and proprietorship

C. W. Keeland & Co

Inventories, Accruals and Reserves, December 31, 1922

Inventory of Merchandise Dec 31, 1922		321819
Accruals:		
Interest accrued on notes receivable		1237
Unpaid wages in selling dept.		6181
Unpaid rent of office		100
Interest accrued on notes payable		1133
Deferred Charges:		
Office supplies on hand		4423
Unexpired insurance:		
On Mdse, Store Fixtures and Del Equip:		
Total premiums paid	14920	
Expired per policy record	12072	2848
On Office Equipment		
Total premiums paid	576	
Expired per policy record	576	
On Buildings:		
Total premiums paid	36	
Expired per policy record	18	18
Reserves:		
Office Equipment 5%		
Store Fixtures, 5%		
Delivery Equipment, 10%		
Buildings, 1½%		
Doubtful Accounts, 1% of Accounts Receivable		

Illustration No. 89, List of Inventories, Accruals and Reserves

of the business, and the net profit resulting from operating the business during the fiscal period.

§ **217. The Adjusting Entries** required at the close of the fiscal period in Illustration No. 90 were prepared from the list of inventories, accruals and reserves (Illustration No. 89). These entries have been explained and illustrated in preceding sections. The entry to record the value of the merchandise in stock at the close of the fiscal period—in this case, the 1922 Inventory—may be made in connection with closing the ledger or as an adjusting entry; the final results are the same, the only difference being that, if the inventory is recorded before the Balance Sheet and Statement of Profit and Loss are prepared, these reports can be made from the Trial Balance taken after the adjusting entries are posted. The entries made in connection with the deferred charges (Office Supplies and Insurance) do not record the value of the office supplies in stock and the unexpired insurance, but transfer from the Office Supplies account and the Insurance account the value of the office supplies which have been used and the amount of the expired insurance. When preparing the list of inventories, accruals and re-

December 31, 1922

14	1922	Inventory	321819	
15		Purchases		321819
		Merchandise in stock December 31, 1922		
		31		
3		Accrued Interest Earned	1237	
18		Interest Earned		1237
		Accrued asset per schedule		
		31		
16		Selling Expense	6181	
17		Administrative Expense	100	
19		Interest Cost	1133	
10		Accrued Wages		6181
10		Accrued Rent		100
10		Accrued Interest Cost		1133
		Accrued liabilities per schedule		
		31		
17		Administrative Expense	25702	
8		Office Supplies		25702
		Office supplies used during the year		
		31		
16		Selling Expense	12072	
17		Administrative Expense	576	
17		Building Expense	18	
8		Insurance		14448
		Expired insurance		
		31		
17		Administrative Expense	24	
16		Selling Expense	31020	
17		Building Expense	45	
16		Loss on Doubtful Accounts	2353	
4		Res. for Dep. of Office Equip.		24
5		Res. for Dep. of Store Fixtures		1020
6		Res for Dep. of Delivery Equip.		300
7		Res for Dep of Building		45
12		Reserve for Doubtful Accounts		2353
		Reserves per schedule		

Illustration No. 90, Adjusting Entries for Inventories, Accruals and Reserves in Illustration No. 89

serves, it is necessary to show the kind of property to which the expired insurance premiums are applicable, in order that the adjusting entry for insurance can be made without further reference to the insurance policy record. One combined entry is made for the reserves; depreciation on store fixtures and delivery equipment increases the selling expense, hence the debit to this account includes both reserves.

C. W. Keeland & Co.

Trial Balance, December 31, 1922

1	Cash	153217	
1	Notes Receivable	134565	
2	Accounts Receivable	238301	
2	Reserve for Doubtful Accounts		3271
3	Accrued Interest Earned	1237	
4	Office Equipment	480	
4	Reserve for Dep. of Office Equip.		48
5	Store Fixtures	204	
5	Reserve for Dep. of Store Fixtures		2340
6	Delivery Equipment	3000	
6	Reserve for Dep. of Delivery Equip.		600
7	Buildings	3000	
7	Reserve for Depreciation of Buildings		90
7	Land	4000	
8	Office Supplies	4473	
8	Insurance	4648	
9	Notes Payable		208139
9	Accounts Payable		179582
10	Accrued Wages		6181
10	Accrued Rent		100
10	Accrued Interest Cost		1133
11	C. W. Keeland, Capital		5000
12	A. D. Munson, Capital		5000
13	Sales		767821
13	Sales Returns	20171	
13	Sales Allowances	4191	
14	1921 Inventory	219871	
14	1922 Inventory	321819	
15	Purchases	1316154	321819
15	Freight In	71897	
15	Purchases Returns and Allowances		411855
✓	Carried Forward	4195894	4525462

Illustration No. 91, Trial Balance after the Adjusting Entries in Illustration No. 90 have been Posted

(*Concluded on page 222*)

Trial Balance, Dec. 31, 1922 (Concluded)

	Brought forward		4195394	4575462
16	Selling Expense		201338	
16	Loss on Doubtful Accounts		2353	
17	Administrative Expense		160462	
17	Building Expense		17019	
18	Interest Earned			16348
18	Purchases Discount			52036
19	Interest Cost		10305	
19	Sales Discount		64475	
			4593846	4593846
			4593846	4593846

Illustration No. 91, Trial Balance after the Adjusting Entries in Illustration No. 90 have been Posted—Concluded

NOTE. When the Working Sheet is used (§ 214), this Trial Balance is omitted, as the same facts are shown by the assets, liabilities, costs and income columns.

§ 218. **The Final Trial Balance** (Illustration No. 91) was made after the adjusting entries in Illustration No. 90 were posted to the ledger from which the Trial Balance (Illustration No. 88) was made. A comparison of the final Trial Balance (Illustration No. 91) with the Trial Balance taken before the adjusting entries were made (Illustration No. 88) will show the following changes:

The five reserve accounts each show an increased credit balance due to the additional reserve set up because of the operations of the business during the past year; the balance of the Office Supplies account has changed because the value of the office supplies used has been transferred to the proper expense account; the balance of the Insurance account has changed because the value of expired insurance has been transferred to the proper expense accounts; the final Trial Balance shows three additional liabilities, Accrued Wages, Accrued Rent, and Accrued Interest Cost; the 1922 Inventory appears on the final Trial Balance, and there is a credit to Purchases for the same amount as the 1922 inventory (both sides of the Purchases account are shown because this information is needed in connection with the preparation of the Statement of Profit and Loss); Selling Expense shows an increased debit balance because of the unpaid wages, expired insurance, depreciation, and loss on doubtful accounts; Loss on Doubtful Accounts is a new account because of the reserve set up to take care of loss on doubtful accounts; Administrative Expense and Building Expense each show an increased debit balance because of the depreciation, expired insurance, office supplies used, and unpaid rent; Interest Earned shows an increased credit balance because of the accrued interest on notes receivable; Interest Cost shows an increased debit balance because of the accrued interest on notes payable.

The balance of each account on the final Trial Balance, Illustration No. 91, is used in the preparation of the Balance Sheet or Statement of Profit and Loss, except Purchases, both sides of which are needed in arriving at the net cost of the merchandise sold; the balances of the proprietors' Capital accounts are not used on either the Balance Sheet or Statement of Profit and Loss but are needed in connection with the proof of these in Illustration No. 94.

§ 219. **The Balance Sheet** in Illustration No. 92 was prepared from the asset, liability, and reserve accounts on the Trial Balance, Illustration No. 91. The information in this report is arranged in the following order: (1) current assets, with the proper deduction for the anticipated loss on doubtful accounts as

C. W. Keeland & Co.
Balance Sheet, December 31, 1922

Current Assets:			
Cash		15317	
Notes Receivable		13456	
Accounts Receivable	2353.01		
Less Res for Dbt. Accts.	3271	2370 30	
Inventory Dec 31, 1922		37818 19	
Accrued Interest Earned		1737	
Total Current Assets			54286 8
Fixed Assets:			
Office Equipment	480.00		
Less Reserve for Depreciation	48 00	432	
Store Fixtures	204.00		
Less Reserve for Depreciation	20 40	183 60	
Delivery Equipment	3000.00		
Less Reserve for Depreciation	600.00	2400	
Buildings	3000.00		
Less Reserve for Depreciation	90 00	2910	
Land		4000	
Total Fixed Assets:			99256 0
Deferred Charges to Operations:			
Office Supplies		4423	
Insurance		4648	
Total Deferred Charges			9071
Total Assets and Deferred Charges			184449 9
Current Liabilities:			
Notes Payable		20813 9	
Accounts Payable		17958 2	
Accrued Wages		6181	
Accrued Rent		100	
Accrued Interest Cost		1133	
Total Current Liabilities			40503 5
Proprietorship:			
C. W. Keeland		71973 2	
A. D. Munson		71973 2	
Total Proprietorship			143946 4
Total Liabilities and Proprietorship			184449 9

Illustration No. 92, Balance Sheet, "Report" Form

represented by the Reserve for Doubtful Accounts account; (2) fixed assets, with the proper reserves for depreciation; (3) deferred charges; (4) current liabilities; (5) proprietorship, showing the proprietary interest of each partner. The form is the same as the Balance Sheet for the model set described and illustrated in Chapter VI, with the exception of additional accounts which have been explained in subsequent chapters. Deferred charges are listed after fixed assets because their value is applicable to the business only as a going concern, hence are the least available of all the assets from the standpoint of those who might wish to extend credit to the business. The proprietorship of each partner is not the same as that shown by his capital account on the Trial Balance because his interest has been increased through the operations of the business; a proof of the correctness of the amount of this increase is shown in Illustration No. 94. As previously explained, the purpose of the Balance Sheet is to show the owner of the business the assets, liabilities, and his proprietorship in the business; it is a report and may be prepared in one of two forms, as explained in Chapter VII.

§ **220. The Statement of Profit and Loss** in Illustration No. 93 was prepared from the operating and non-operating income and the operating and non-operating expense accounts in the Trial Balance, Illustration No. 91. The information in this report is arranged in the following order: (1) gross sales (balance of the Sales account); (2) net returns from sales (returns and allowances deducted from the total sales); (3) net cost of merchandise purchased (1921 inventory plus debit side of the Purchases account plus balance of the Freight In account, less the amount of the purchases returns and allowances); (4) net cost of merchandise sold (net cost of merchandise purchased less the 1922 inventory, which is the same as the credit side of the Purchases account); (5) gross profit on sales (net returns from sales less net cost of merchandise sold); (6) operating cost (total of the three expense accounts and the Loss on Doubtful Accounts account); (7) net profit from operations (gross profit on sales less total operating cost); (8) other income (Interest Earned and Purchases Discount); (9) gross income (net profit from operations plus other income); (10) deductions from income (Interest Cost and Sales Discount); (11) net income (gross income less deductions from income); (12) distribution of the net income (that part of the profit which is to be credited to each partner's Capital account and to his Personal account for withdrawal). The purpose of the Statement of Profit and Loss is to show the owners of the business the net profit resulting from the operations of the business during the fiscal period and the various facts in connection with this net profit which will be of assistance to them in the future operations of the business; it is a report and may be prepared in one of two forms, as explained in Chapter VII.

§ **221. The Proof** in Illustration No. 94 shows that the proprietorship on the Balance Sheet (Illustration No. 92) and the net profit on the Statement of Profit and Loss (Illustration No. 93) are correct. This proof is made for the convenience of the bookkeeper before the reports are submitted to the management, but need not be submitted as a part of the reports. The net profit on the Statement of Profit and Loss, Illustration No. 93, is $4,394.64. The proprietary interest of each partner at the beginning of the period is $5,000.00, as shown by the balance of his Capital account on the final Trial Balance, Illustration No. 91. The proprietary interest of each partner as shown by the Balance Sheet, Illustration No. 92, is $7,197.32. Deducting the proprietorship at the beginning of the period from the proprietorship at the end of the period shows the increase in proprietorship; in the illustration it is $2,197.32 each, or $4,394.64, total. No facts set forth by the Balance Sheet or Statement of Profit and Loss can be accepted as correct until this proof has been made.

This proof is not necessary when the Working Sheet (§ 214) is prepared because the results are proved when the difference between the assets and liabilities columns is the same as the difference between the income and costs columns.

C. W. Keeland & Co.
Statement of Profit and Loss for Year Ending December 31, 1922

Returns from Sales:			
Gross Sales		2673317	
Less: Returns	20171		
Allowances	4191	24362	
Net Returns from Sales			2653950
Cost of Mdse. Sold:			
Inventory Dec. 31, 1921	219871		
Purchases	1316154		
Freight In	71189	2247922	
Less Pur. Returns and Allowances		41185	
Net Cost of Mdse Purchased		2206737	
Inventory Dec. 31, 1922		321819	
Net Cost of Mdse Sold			1884918
Gross Profit on Sales			769032
Operating Expenses:			
Selling Expense		201338	
Loss on Doubtful Accounts		2353	
Administrative Expense		160462	
Building Expense		17019	
Total Operating Expenses			381172
Net Profit from Operations			387860
Other Income:			
Interest Earned		16348	
Purchases Discount		52036	
Total Other Income			68384
Gross Income			456244
Deductions from Income.			
Interest Cost		10305	
Sales Discount		6475	
Total Deductions from Income			16780
Net Income			439464
Distribution:			
C. W. Keeland, Capital		169732	
C. W. Keeland, Personal		500	
A. D. Munson, Capital		169732	
A. D. Munson, Personal		500	
		439464	439464

* Illustration No. 93, Statement of Profit and Loss, "Report" Form

Proof

Net Profit (Statement of Profit and Loss)		439464
C. W. Keeland:		
Proprietorship 12/31/22 (Bal Sheet)	719732	
Proprietorship 12/31/21 (Cap Acct)	500000	
Increase in Proprietorship	219732	
A. D. Munson:		
Proprietorship 12/31/22 (Bal Sheet)	719732	
Proprietorship 12/31/21 (Cap Acct)	500000	
Increase in Proprietorship	219732	
Total Increase in Proprietorship	439464	439464

Illustration No. 94, Proof of Net Profit

§ 222. The Closing Entries in Illustration No. 95 were prepared from the Statement of Profit and Loss, Illustration No. 93. The purpose of these entries is to close all operating and non-operating income and expense accounts and to give each partner the proper credit in his Capital and Personal accounts for his share of the profit for the period. The process of closing is the same as that explained in Chapter VIII with the exception of additional entries necessary because of additional accounts. The first entry closes the Sales Returns and Sales Allowances accounts into the Sales account; the second entry, the 1921 Inventory and Freight In accounts into the Purchases account; and the third entry, the Purchases Returns and Allowances account into the Purchases account; these three entries were not needed in connection with closing the ledger as discussed in Chapter VIII. The fourth entry closes the Purchases account into the Sales account; the fifth, the Sales account into the Profit and Loss account; and the sixth, the operating expense accounts into the Profit and Loss account; these three entries are identical with the second, third and fourth entries discussed in Chapter VIII. The seventh entry closes the non-operating income accounts into the Profit and Loss account, and the eighth, the non-operating expense accounts into the Profit and Loss account; these two entries were not shown in the illustration in Chapter VIII because there were no non-operating incomes and no non-operating expenses. The ninth entry closes the Profit and Loss account into the proprietors' Capital and Personal accounts; this corresponds to the fifth entry in Chapter VIII, the only difference being in the distribution of the net profit. The entry to place the value of the closing inventory—in this case, the 1922 Inventory—on the ledger was made as an adjusting entry (Illustration No. 90) instead of as a closing entry as in Chapter VIII (see note in § 57). A comparison of the discussion at this time with that given in Chapter VIII is made that the student may see that the method of closing is the same, the changes being due to the additional accounts and not to a change in the method of procedure. After the closing journal entries

(*Concluded on page 228.*)

The journal entry method of closing the ledger, as shown in Illustration No. 95, is preferable because it provides in a book of original entry a record of each entry in the ledger and thus facilitates auditing. However, if desired, the closing entries may be made direct in the ledger; this plan is explained in Appendix B.

December 31, 1922

13	Sales		24362	
13		Sales Returns		20171
13		Sales Allowances		4191
	To close the Sales Returns and Sales Allowances accounts.			
		31		
15	Purchases		931768	
14		1921 Inventory		219871
15		Freight In		711897
	To close the 1921 Inventory and Freight In accounts.			
		31		
15	Purchases Returns and Allowances		41185	
15		Purchases		41185
	To close the Purchases Returns and Allowances account			
		31		
13	Sales		1884918	
15		Purchases		1884918
	To close the Purchases account			
		31		
13	Sales		769032	
20		Profit and Loss		769032
	To close the Sales account			
		31		
20	Profit and Loss		381172	
16		Selling Expense		201338
16		Loss on Doubtful Accounts		2353
17		Administrative Expense		160462
17		Building Expense		17019
	To close the operating expense accounts.			
		31		
18	Interest Earned		16348	
18	Purchases Discount		52036	
20		Profit and Loss		68384
	To close the non-operating income accounts			

Illustration No. 95, Journal Entries to Close the Ledger—Continued

December 31, 1922

20	Profit and Loss		16780	
19		Interest Cost		10305
19		Sales Discount		6475
	To close the non-operating expense accounts			
	31			
20	Profit and Loss		439464	
11		G. W. Keeland, Capital		169732
11		G. W. Keeland, Personal		500
12		A. D. Munson, Capital		169732
12		A. D. Munson, Personal		500
	To close the Profit and Loss account			

Illustration No. 95, Journal Entries to Close the Ledger—Concluded.

(*Continued from page 226.*)

have been posted to the accounts in the ledger and those accounts which are in balance ruled, the operating and non-operating income and expense accounts will be in balance and the Capital and Personal accounts of each partner will show his proprietary interest in the business. The Capital accounts of the partner should be balanced and ruled in the same manner as explained in Chapter VIII.

§ 223. **The Post-Closing Entries** in Illustration No. 96 are required to close the Accrued Interest Earned and Accrued Interest Cost accounts into the Interest Earned and Interest Cost accounts, as explained in §§ 196 and 204. The Accrued Rent and Accrued Wages accounts are not closed because these obligations will be paid early in the next fiscal period (§ 200) and in one amount. When the above entries are posted the Accrued Interest Earned and Accrued Interest Cost accounts will be in balance and the interest resulting from these accruals will be properly recorded in the two accounts with interest.

December 31, 1922

18	Interest Earned		1737	
3		Accrued Interest Earned		1737
	To close the Accrued Interest Earned account			
	31			
10	Accrued Interest Cost		1133	
19		Interest Cost		1133
	To close the Accrued Interest Cost account			

Illustration No. 96, Post-Closing Entries

§ 224. The Post-Closing Trial Balance in Illustration No. 97 was prepared from the ledger accounts after the entries in Illustrations Nos. 95 and 96 were posted. The purpose of this Trial Balance is to prove that the ledger is in balance at the close of the fiscal period, thus enabling the bookkeeper to secure a Trial Balance at the end of the first month in the next fiscal period. If the ledger is out of balance at the beginning of the fiscal period because of errors in closing or post-closing entries, it will remain out of balance until the error is discovered and corrected.

C. W. Keeland & Co.
Post-Closing Trial Balance December 31, 19--

1	Cash	153217	
1	Notes Receivable	134565	
2	Accounts Receivable	235301	
2	Reserve for Doubtful Accounts		347
4	Office Equipment	480	
4	Reserve for Dep. of Office Equip.		48
5	Store Fixtures	204	
5	Reserve for Dep. of Store Fixtures		2040
6	Delivery Equipment	3000	
6	Reserve for Dep. Delivery Equip.		600
7	Buildings	3000	
7	Reserve for Depreciation of Buildings		90
7	Land	4000	
8	Office Supplies	4423	
8	Insurance	4648	
9	Notes Payable		208139
9	Accounts Payable		179582
10	Accrued Wages		6181
10	Accrued Rent		100
11	C. W. Keeland Capital		669732
11	C. W. Keeland Personal		500
12	A. D. Munson Capital		669732
12	A. D. Munson Personal		500
14	19-- Inventory	321819	
18	Interest Earned	1237	
19	Interest Cost	1133	
		1923610	1923610
		1923610	1923610

Illustration No. 97, Post-Closing Trial Balance

Exercise No. 80.

The following list of accruals, deferred items, reserves, and merchandise inventory, December 31, 1922, is applicable to the retail furniture business, Exercise No. 71, pages 184-188.

(a) Merchandise in stock, $21,265.97.
(b) Interest accrued on notes receivable, $18.05.
(c) Interest accrued on notes payable, $1.56. Unpaid pay roll for one-half week: office employees, $25.00; selling department, $75.00. December garage rent unpaid, $25.00.
(d) Office supplies on hand, $125.07. Unexpired insurance: on merchandise, $111.98; on delivery equipment, $42.10; on building, $33.42.
(e) Reserves for Depreciation: Office Equipment, 5%; Delivery Equipment, 10%; Building, 2½%.
(f) Reserve for Doubtful Accounts: ¼% of sales (credit balance of Sales account).

Follow instructions given below:

1. Make the adjusting journal entries.
2. Post to the ledger sheets used in Exercise No. 71, and take a Trial Balance.
3. Prepare a Balance Sheet and a Statement of Profit and Loss, both in "report" form. (The profit is shared equally by the partners.)
4. Record in the general journal the entries necessary to close the ledger.
5. Make the post-closing entries, post them, and take a post-closing Trial Balance.

QUESTIONS

1. Is it necessary for the bookkeeper or accountant to prepare the Balance Sheet first?
2. Why is the Balance Sheet usually prepared first and the Statement of Profit and Loss second?
3. What information does the management of the business obtain from (a) the Balance Sheet and (b) the Statement of Profit and Loss?
4. Why is it necessary for the net profit as shown by the Statement of Profit and Loss to be the same as the increase in capital as shown by the Balance Sheet?
5. What is the distinction (a) between the adjusting entries and closing entries and (b) between the closing entries and post-closing entries?
6. Is it necessary to close the ledger at the end of the fiscal period? Give reason for answer.
7. If merchandise which cost $2,000.00 is inventoried at $1,500.00, what effect will this have on the net profit?
8. Why is it customary when taking stock to use the cost price of merchandise instead of the market price when the latter is greater than the former?
9. What effect would an error in closing the ledger have on the Trial Balances in subsequent periods?
10. How is the amount of accrued interest earned and accrued interest cost obtained?

Chapter XXIII

PARTNERSHIP PROBLEMS

The Purpose of this Chapter is to develop the principles discussed in the preceding chapters by means of problems requiring their application, and to illustrate the opening, current, adjusting, and closing entries peculiar to a business conducted by partners; also to give additional practice in the preparation of the Balance Sheet and Statement of Profit and Loss for a partnership business. Each problem is treated as an exercise and numbered consecutively, following the preceding exercises.

Exercise No. 81, Opening Entries.

F. L. Burke, R. S. Cooke, and C. B. Summers form a partnership for the purpose of transporting freight by truck. F. L. Burke and R. S. Cooke have been operating independent lines but wish to consolidate; C. B. Summers is admitted as a partner because of the additional cash capital needed for the operation of the consolidated lines.

Mr. Burke invests the present assets of his business, consisting of the following: three trucks, cost price $2,500.00 each; depreciation on trucks, $750.00; accounts receivable, $1,251.50; reserve for doubtful accounts, $116.40; notes receivable, $500.00; check on the First National Bank, $627.65. The new firm agrees to assume the following liabilities: accounts payable, $327.60; a note for $1,000.00 payable at the First National Bank; accrued interest on the note, $8.50.

Mr. Cooke invests the following assets: four trucks, cost price $1,650.00 each; depreciation on trucks, $1,320.00; office equipment, $350.00; depreciation on office equipment, $35.00; accounts receivable, $762.50; reserve for doubtful accounts, $84.70; check on the City National Bank, $1,323.45.

Mr. Summers invests check on the Atlas National Bank, $7,500.00.

Prepare in journal form, under date of July 1, the entries necessary to open the books of the new partnership. Debit an account with Trucks with the present value of the trucks invested.

Exercise No. 82, Opening Entries.

W. H. Rankin and Chas. O. Watkins form a partnership for the purpose of engaging in the retail shoe business. Mr. Rankin invests his present stock of goods, valued at $2,684.73; personal accounts due him, $1,274.28, less 2% for bad debts; a note due him for $375.60; accrued interest on this, $3.76; office equipment, cost value, $447.65; depreciation on the same, $44.77; store fixtures $650.00; depreciation on the same, $65.00; cash in bank to his credit, $1,428.65; he owes personal accounts, $2,176.48; and a note for $1,000.00.

Mr. Watkins invests cash, $2,000.00; a note in his favor, $1,500.00; and accrued interest on this note, $27.65.

Prepare in journal form, under date of February 1, the entries required to record the investment of the partners.

Exercise No. 83, Opening Entries.

W. H. Armstrong and C. L. Whittle form a partnership for the purpose of engaging in the retail hardware business. Mr. Armstrong invests cash in the bank, $387.62; merchandise in stock, $2,438.26; personal accounts due him, $972.40; reserve for bad debts, 2%; office equipment, cost value, $350.00; depreciation on the same, $35.00; store fixtures, $475.00; depreciation on the same, $47.50; notes receivable, $675.27; accrued interest on the same, $36.20. The partnership assumes personal accounts which he owes, $942.76; a note due the First National Bank for $1,000.00; accrued interest on this, $20.00. Mr. Whittle invests cash, $1,427.86; merchandise in stock, $1,360.48; personal accounts due him, $843.65, less 2% for bad debts; delivery equipment, cost value, $850.00; depreciation on the same, $85.00; notes receivable due him, $1,265.74; accrued interest on the same, $82.75. The partnership assumes personal accounts which he owes, $365.40; a note due the City National Bank, $500.00.

Prepare in journal form, under date of October 1, the entries required to record the investment of the partners.

Exercise No. 84, Transactions Affecting Partners' Capital Accounts.

1. Record direct in the capital accounts the following transactions relating to the investments and withdrawals of L. B. Audigier, M. B. Griffin and C. B. Carter, in the real estate business:

Jan. 1. Each partner invested $3,000.00; 28, L. B. Audigier withdrew $500.00.

Feb. 6. M. B. Griffin invested $1,200.00; 24, C. B. Carter invested $1,500.00.

Mar. 1. L. B. Audigier invested $2,500.00; 8, M. B. Griffin invested $1,500.00; 12, C. B. Carter withdrew $1,265.28; 16, M. B. Griffin invested $1,582.75; 31, L. B. Audigier withdrew $827.40.

Apr. 15. The firm accepted real estate belonging to L. B. Audiger, valued at $1,182.65; 22, M. B. Griffin withdrew $1,265.91.

July 1. L. B. Audigier withdrew $500.00.

Aug. 1. M. B. Griffin withdrew $1,342.86; 16, L. B. Audigier invested $1,598.76; 12, M. B. Griffin invested $1,800.00.

Sept. 1. C. B. Carter invested $2,500.00; 29, C. B. Carter withdrew $1,500.00.

Oct. 5. M. B. Griffin withdrew $850.00; 31, L. B. Audigier withdrew $1,000.00.

Nov. 5. M. B. Griffin invested $1,200.00; 9, C. B. Carter invested $1,000.00; 22, L. B. Audigier invested $1,250.00.

Dec. 1. C. B. Carter withdrew $250.00.

2. December 31, the net profit, as shown by the Statement of Profit and Loss, was $4,500.00. Make the entry to transfer this to their capital accounts, assuming that profits are to be shared equally.

3. January 1 of the following year, the business was sold for $24,000.00. Show the division of this cash between the partners according to each partner's net investment.

Exercise No. 85, Consolidation of Two Partnerships.

E. F. Penn and G. W. Penn are partners operating a retail grocery business in one locality, and F. V. Knight and H. O. Powell are partners operating the same line of business in another locality. It is agreed to form a partnership, consolidating

the two businesses. Each partner is to invest $5,000.00 and share equally in the profits of the new business. The Trial Balance taken from the ledgers of the two concerns after the books were closed April 30, 192.., are as follows:

PENN BROS. Post-Closing Trial Balance, April 30, 192..

Cash	308 42	
Notes Receivable	321 40	
Accounts Receivable	1,694 39	
Reserve for Bad Debts		34 20
Merchandise Inventory	1,775 15	
Accrued Interest Earned	6 11	
Furniture and Fixtures	295 00	
Reserve for Depreciation of Furniture and Fixtures		29 50
Buildings	4,000 00	
Reserve for Depreciation of Buildings		200 00
Land	2,500 00	
Insurance	156 75	
Notes Payable		534 40
Accounts Payable		942 27
Accrued Interest Cost		35 65
Accrued Wages		76 40
E. F. Penn, Capital		5,635 90
E. F. Penn, Personal	1,014 35	
G. W. Penn, Capital		5,478 45
G. W. Penn, Personal	895 20	
	12,966 77	12,966 77

KNIGHT & POWELL Post-Closing Trial Balance, April 30, 192..

Cash	2,995 95	
Accounts Receivable	3,748 16	
Reserve for Doubtful Accounts		75 29
Inventory	4,500 00	
Furniture and Fixtures	325 00	
Reserve for Depreciation of Furniture and Fixtures		48 75
Delivery Equipment	1,850 00	
Reserve for Depreciation of Delivery Equipment		370 00
Insurance	396 84	
Office Supplies	142 17	
Notes Payable		1,091 65
Accounts Payable		1,543 70
Accrued Interest Cost		65 47
Accrued Rent		175 00
F. V. Knight, Capital		4,869 36
F. V. Knight, Personal		37 65
H. O. Powell, Capital		5,386 22
H. O. Powell, Personal		295 03
	13,958 12	13,958 12

(1) Prepare the journal entries to open the books of the new partnership. Debit the fixed asset accounts for their net invested value.

(2) Prepare the journal entries to close the partners' personal accounts into their capital accounts.

(3) Show in journal form the entries necessary to record the additional cash investment of three of the partners and the withdrawal of cash from investment by one partner, in order to make the net investment of each equal to $5,000.00, the amount agreed upon.

Exercise No. 86, Admission of a Partner.

D. P. Winters and L. S. French are partners operating a drug business under the firm name of Winters & French. They decide to consolidate with S. M. Smiley who is operating a drug store as an individual. The assets, liabilities, and proprietorship of the partnership and of the individual are shown below:

WINTERS & FRENCH Post-Closing Trial Balance, June 30, 192..

Cash	3,970 76	
Inventory—Drugs	4,051 80	
Inventory—Merchandise	1,926 75	
Office Equipment	300 00	
Reserve for Depreciation of Office Equipment		27 50
Store Fixtures	850 00	
Reserve for Depreciation of Store Fixtures		85 00
Soda Fountain Equipment	500 00	
Reserve for Depreciation of Soda Fountain Equipment		25 00
Office Supplies	66 40	
Soda Fountain Supplies	132 45	
Insurance	254 80	
Notes Payable		6,530 00
Accounts Payable		236 42
Accrued Interest Cost		300 00
Accrued Rent		150 00
D. P. Winters, Capital		2,349 52
L. S. French, Capital		2,349 52
	12,052 96	12,052 96

SMILEY'S PHARMACY Post-Closing Trial Balance, June 30, 192..

Cash	7,424 65	
Notes Receivable	256 27	
Accounts Receivable	1,942 32	
Reserve for Bad Debts		46 12
Inventory—Drugs	601 20	
Inventory—Merchandise	434 12	
Accrued Interest Earned	24 35	
Store Fixtures	269 50	
Reserve for Depreciation of Store Fixtures		26 95
Soda Fountain Equipment	150 00	
Reserve for Depreciation of Soda Fountain Equipment		7 50
Insurance	132 50	
Notes Payable		950 00
Accounts Payable		1,296 52
Accrued Interest Cost		3 00
Accrued Wages		22 50
S. M. Smiley, Capital		8,882 32
	11,234 91	11,234 91

(1) Prepare in journal form the entries necessary to open the books of the new partnership.

(2) Post these entries and prepare a Trial Balance.

Exercise No. 87, Retirement of a Partner.

G. H. Graton, T. R. Rollins, and L. B. Bennett are operating a wholesale grocery business as partners. Mr. Rollins wishes to retire. His capital account at this time shows a debit of $1,862.55 and a credit of $16,981.50; his personal account shows a debit of $2,652.40 and a credit of $2,000.00. He agrees to accept in settlement for his interest in the business the following: cash, $5,843.50; a note for $5,000.00 signed by the new firm of Graton & Bennett; a note for $2,000.00 held by the firm and signed by a customer (accrued interest, $56.50); an auto-

mobile owned by the firm, the cost of which was debited to the Delivery Equipment account, $2,000.00 (depreciation, $400.00); merchandise from stock, $500.00.

Prepare, under date of August 10, in journal form the entries to close Mr. Rollins' personal account and to record the agreement; debit the excess to a Loss on Purchase of Partner's Interest account.

Exercise No. 88, Death of a Partner.

M. Abbott, T. Bronner, and F. Clayton were partners in a retail farm implements business, sharing profits equally. December 31 the books were closed. March 15 of the following year Mr. Abbot died. March 17 C. Breese was appointed administrator for Mr. Abbott and required a statement of the business as of March 15. The Trial Balance prepared at the close of business on that date was as follows:

ABBOTT, BRONNER & CLAYTON Trial Balance, March 15, 192..

Cash	14,333 65	
Notes Receivable	1,696 71	
Accounts Receivable	7,562 90	
Reserve for Doubtful Accounts	21 50	178 20
Furniture and Fixtures	950 00	
Reserve for Depreciation of Furniture and Fixtures	25 00	142 50
Insurance	962 30	
Office Supplies	630 40	
Advertising Material	1,412 69	
Notes Payable		10,000 00
Accounts Payable		8,562 98
M. Abbott, Capital		5,495 60
M. Abbott, Personal	244 16	
T. Bronner, Capital		4,987 35
F. Clayton, Capital		4,643 86
F. Clayton, Personal		361 29
Sales		30,103 65
Sales Returns and Allowances	230 83	
Merchandise Inventory	2,346 95	
Purchases	26,431 70	
Freight In	3,775 90	
Purchases Returns and Allowances		341 36
Selling Expense	2,177 19	
Administrative Expense	1,868 31	
Interest Earned		251 60
Interest Cost	398 20	
	65,068 39	65,068 39

Merchandise Inventory, March 15, 192.., $12,594.35.
Accrued interest on notes receivable, $87.95.
Accrued interest on notes payable, $136.62.
Unpaid Wages: selling department, $450.00; office, $350.00.
Unpaid Rent for the month of March, $150.00.
Insurance Expired, $637.84. One-half of expired insurance is on merchandise and one-half on furniture and fixtures; of the expired insurance on furniture and fixtures, one-fourth is applicable to administrative expense and three-fourths to selling expense.
Office supplies on hand per inventory, $125.05.
Advertising material on hand per inventory, $265.77.
Depreciation on Furniture and Fixtures, $9.90 (yearly depreciation, 5% of cost); of this, one-fourth is applicable to administrative expense and three-fourths to selling expense.
Reserve for Doubtful Accounts, one-twelfth of 1% of net sales.

Prepare (1) the adjusting entries, (2) the Trial Balance from the ledger after these entries are posted, (3) the Balance Sheet, (4) the Statement of Profit and Loss, (5) the closing entries, (6) the post-closing entries, and (7) the post-closing Trial Balance after these entries are posted.

April 1 the administrator accepted $6,000.00 cash in full settlement for Mr. Abbott's interest in the business. Record this transaction in journal form.

Exercise No. 89, Trial Balance, Statements and Ledger Closing.

On December 31, 1922, the accounts in the ledger of T. B. Austin & Co. show the following balances:

Cash	$ 8,200.00
Notes Receivable	1,480.00
Accounts Receivable	10,800.00
Reserve for Doubtful Accounts	430.00
Furniture and Fixtures	800.00
Res. for Dep. of Furn. and Fix.	200.00
Delivery Equipment	2,200.00
Res. for Dep. of Del. Equipment	660.00
Buildings	3,000.00
Res. for Dep. of Buildings	300.00
Land	3,500.00
Insurance	290.00
Office Supplies	474.40
Advertising Material	756.95
Notes Payable	5,000.00
Accounts Payable	11,000.00
T. B. Austin, Capital	16,800.00
A. R. Black, Capital	16,800.00
Sales	48,000.00
1921 Inventory	3,300.00
Purchases	49,000.00
Freight and Drayage In	3,450.00
Buying Expense	960.00
Selling Expense	7,500.00
Delivery Expense	1,240.00
Administrative Expense	2,275.00
Interest on Notes Receivable	58.95
Discount on Purchases	664.00
Interest on Notes Payable	395.00
Discount on Sales	291.60

1. Prepare a Trial Balance from these account balances.
2. Make the adjusting entries for the following:
   (a) 1922 inventory, $28,762.95.
   (b) Accrued interest on notes receivable, $25.60.
   (c) Accrued interest on notes payable, $31.80.
   (d) Unpaid pay roll: office, $120.00; selling department, $160.00.
   (e) Expired insurance: furniture and fixtures, $16.75; delivery equipment, $24.50; buildings, $37.00; stock of merchandise, $60.95.
   (f) Supplies used: office supplies, $395.45; advertising material, $710.10.
   (g) Reserves for depreciation: furniture and fixtures, 5%; delivery equipment, 6%; buildings, 2%.
   (h) Reserve for Doubtful Accounts: 1% of accounts receivable.
3. Prepare a Balance Sheet and Statement of Profit and Loss assuming that the profit is shared equally by the partners.
4. Make the entries to close the ledger.
5. Make the necessary post-closing entries.
6. Prepare a post-closing Trial Balance.

Exercise No. 90, Changing from a Partnership to a Sole Proprietorship.

Ammon and Banbury are partners operating a motion picture theater. Neither receives a salary, the profit being shared equally at the end of the year.

Ammon receives injuries in an automobile accident which necessitate his retiring from active management. Banbury wishes to continue his connection with the theater, but does not care to assume the risk of management on his own responsibility. It is agreed that Ammon shall buy Banbury's interest as shown in the ledger, payable one-half cash and one-half note, and that he shall retain Banbury as manager of the theater, giving him, in addition to a monthly salary of $150.00, one fifth of the yearly profits. The partners' accounts appear in the ledger as follows: Ammon, Capital, Cr., $13,050.00; Ammon, Personal, Dr., $550.00; Banbury, Capital, Cr., $11,300.00; Banbury, Personal, Cr., $700.00. Statements prepared December 31, show that the net profit for the year is $6,800.00.

1. Make the entries in journal form (a) to transfer the net profit to the partner's capital accounts; (b) to close Banbury's personal account into his capital account; (c) to record the note and cash given by Ammon in payment for Banbury's interest.

2. Assuming that the net profit the first year after the new agreement goes into effect is $7,000.00, (a) record in journal form the distribution of the net profit; (b) compare the compensation received by each under the partnership agreement and under the new agreement, stating whether it was more or less under the latter than under the former.

Exercise No. 91, Accruals and Deferred Items.

At the close of the fiscal period April 10, the accruals and deferred items to be recorded on the books of Binner & Johnson are as follows:

Interest accrued on notes receivable	$275.60
Interest accrued on notes payable	218.65
Taxes accrued (Administrative Expense)	214.40
Wages unpaid:	
Administrative division of the office	116.50
Purchasing division of the office	55.90
Selling division of the office	251.65
Sales clerks in store	310.00
Drivers of delivery trucks	125.60
Rent for month paid in advance April 1	150.00
Insurance:	
Payments, per Insurance account:	
On merchandise	865.40
On delivery equipment	352.50
On building	250.00
Unexpired, per insurance policy record:	
On merchandise	207.90
On delivery equipment	75.75
On building	107.50
Material:	
Office supplies purchased per Office Supplies account	721.65
Office supplies on hand per inventory	119.60
Advertising material purchased per Advertising Material acct.	625.50
Advertising material on hand per inventory	144.50
Total stamps purchased per Stamps account	801.50
Stamps used in office	85.50
Stamps used in advertising department	261.08

1. Make the adjusting entries (a) to record the accrued assets and liabilities, (b) to record the prepaid rent in the proper account, (c) to transfer the expired insurance to the proper operating accounts, and (d) to transfer the value of material used to the proper operating accounts.

2. Make the post-closing entries to transfer the accrued assets and liabilities and the prepaid expense in (a) and (b) above, to the proper operating accounts, under date of April 11.

QUESTIONS

1. (a) What account is credited for that part of the profit which is to be withdrawn by a partner? (b) What account is credited for that part which is to be left in the business?
2. Robert Johnson invests $5,000.00 and withdraws $1,200.00; James Carrel invests $4,000.00 and withdraws $800.00. The business is sold for $10,500.00 cash. How much of this cash will each partner receive, the profit and cash to be divided in the same proportion as the net investment?
3. If amounts withdrawn by a partner as compensation for his services are debited direct to his capital account, what effect will this have on (a) the operating cost of the business and (b) on the net profit of the business?
4. If there are three partners in a business and one of them sells his interest in the business to one of the other partners for cash, (a) what entry will be required to record this sale? (b) If he sells to the other two partners and payment is made from the assets of the partnership, what entry will be made?
5. If there are three partners in a business and one of them (with the consent of the others) sells his interest for part cash and part note to a person who is not connected with the firm, what entry will be required to record this transaction?
6. If a partnership business composed of two partners has been operated at a loss of $4,000.00 during the fiscal period, and the two partners, who share this loss equally, each invests $1,500.00 cash and has $500.00 debited to his personal account to cover this loss, what entry will be made to record the transaction?
7. If the profit resulting from the operations of a partnership business during a fiscal period is $6,000.00 and the two partners agree to withdraw all of this, one of them accepting a building and lot recorded on the books of the partnership as "Real Estate, $2,750.00" as his share of the profit and the other accepting $3,000.00 cash as his share, how will the transaction be recorded?
8. One of the partners is to receive five per cent of the total sales as his compensation for services rendered the partnership, maintaining his own automobile for use in calling on customers. At the close of the business year the total sales amount to $152,000.00, and his drawing account shows a debit balance of $4,900.00 for amounts withdrawn on account of commission. What entries will be required to record the commission and the check paid him for the balance of his commission?
9. J. C. Strickler is one of the partners in a mercantile business. At the close of the business year, his personal account shows a credit balance of $1,400.00 for amounts advanced to the partnership and for salary during the year. He agrees to accept in settlement of this an automobile purchased by the partnership at the beginning of the previous fiscal period for $1,850.00 as recorded in the Delivery Equipment account, and depreciated at the rate of ten per cent for each fiscal period. What entries are necessary to record this transaction?
10. T. B. Bridges and L. W. Peart are partners in a mercantile business. At the close of the fiscal period Mr. Bridges' capital account shows a credit balance of $6,752.80 and Mr. Peart's capital account, a credit balance of $5,522.50. Mr. Peart pays Mr. Bridges $3,500.00 cash for one-half of his interest in the business, thus giving Mr. Peart a three-fourths interest and Mr. Bridges a one-fourth interest. What entry is necessary to record this transaction?

Chapter XXIV

CONSIGNMENTS

The Purpose of this Chapter is to explain the method of recording transactions affecting merchandise received by the business or shipped by the business on consignment, and to illustrate, through the practice set, some of the transactions performed by a commission business. While the tendency in modern business is to buy and sell, yet there are many cases in which it is to the advantage of all parties concerned to make sales on consignment.

§ 225. **A Consignment** is merchandise sent by the owner to another to be sold for the owner. The owner of the merchandise sent as a consignment is known as the consignor and the one to whom the merchandise is sent as the consignee. The consignment is at the risk of the consignor and belongs to him until it is sold by the consignee.

The consignor consigns the merchandise to the consignee; the consignee sells the merchandise and pays the consignor for it. As a rule, the report of sales for each consignment is made after all merchandise in the consignment has been sold. The consignee may have in his possession more than one consignment from the same consignor, but a separate record is kept of the sales of the merchandise in each consignment.

§ 226. **The Relation of the Consignor and Consignee** is that of principal and agent. The agent must follow the instructions of the principal in regard to the sale of the merchandise which belongs to the principal; in the absence of any specific agreement in regard to the method of sale, the agent is supposed to follow the trade custom of the business in which he is engaged. The agent should keep the merchandise of his principal separate from his own merchandise and must take the same care of it; otherwise, he will be responsible for any damage that may occur through his negligence.

§ 227. **Compensation of Consignee.** The consignee receives a fee for the sale of merchandise on consignment; this fee is referred to as commission and is based on an agreed percentage of the net sales. The commission is the consignee's profit, that is, his income from the services rendered in connection with selling consigned goods. A profit will accrue to the consignor if he receives from the consignee a greater amount than the cost of merchandise plus the cost of sales.

§ 228. **Purpose of Consignments.** Merchandise is consigned because its nature is such that the consignee does not wish to purchase it or because the consignor believes that it will be to his advantage to offer it for sale on consignment. Live stock, cotton, fruit, vegetables, poultry and eggs are examples of the class of merchandise sold on consignment. These examples illustrate the class of merchandise that may be offered for sale on consignment, and are not given to convey the idea that such merchandise is always sold in this manner. Trade customs and market conditions govern, to a large extent, the marketing of all classes of merchandise.

§ 229. **Business Forms and Accounts.** The business forms required in connection with a consignment consist of the "invoice of shipment" and the "account sales." The additional accounts necessary in connection with consignments consist of Consignment Out, Consignment In, Commission, Storage, and Drayage.

§ 230. **The Invoice of Shipment** is the business form used by the consignor on which to list the goods shipped to the consignee on consignment. It has the same relation to a consignment as the sales invoice has to a sale, but differs in

that the title to the merchandise shipped on consignment remains in the shipper while the title to merchandise sold passes to the purchaser. Illustration No. 98 shows one form of invoice of shipment.

Invoice of Shipment.

June 12, 19__

Invoice of Flour

Shipped via _____ Consigned to Byron Brothers,

216 Main St, Centerville to be sold for account and risk of

C. W. KEELAND & CO., Consignors.

50	bbls	Superior Flour @	$3.60	180	00	
50	"	Fancy "	3.30	165	00	
50	"	Peerless "	3.00	150	00	495 00

Illustration No. 98, Invoice of Shipment.

§ **231. The Account Sales** is the business form used by the consignee for reporting to the consignor the sales and expenses in connection with the consignment. The information shown in it consists of the date, name and address of the

Account Sales

CINCINNATI, OHIO JUL 5 19__

M Southern Fruit & Veg. Co Address Atlanta

Below please find account sales of 200 crates Berries

Sold by Thompson & Strong Commission Merchant

Received July 2 19__ and sold for account of ourselves

DATE	CHARGES	Folio	AMOUNT	DATE	SALES	Folio	AMOUNT
July 2	Freight	C3	48 67	July 2	50 crates at 3.25	S1	167 50
5	Drayage	S1	10	2	50 " " 3.25	S1	167 50
	Returns			3	100 " " 3.20	C7	320
	"						
	Advances						
	"						
5	Storage	S1	10				
	Insurance						
5	Commission	S1	64 50				
5	Net Proceeds	C3	511 88				
			645				645

Illustration No. 99, Account Sales.

consignee, name and address of the consignor, date the consignment was received, the various charges in connection with the consignment, a description of each sale from the consignment, the total sales, and the net amount due the consignor. Where there are a number of consignments, the consignee may, by the use of carbon paper, prepare the account sales as the debits and credits are posted. Illustration No. 99 shows one form of account sales.

CONSIGNMENT OUT ACCOUNT

§ 232. The Purpose of this Account is to show the consignor's record of the transactions with the consignment. The title of the account should include the term "consignment" and the name of the consignee, also "out" or "to" to indicate the nature of the account; thus "Consignment Out, John Smith & Co." or "Consignment to John Snith & Co." indicates that merchandise belonging to the business for which the books are being kept has been shipped to John Smith & Co. to be sold on consignment.

Debit Each Consignment Out Account:

¶ 1. For transportation (a) prepaid on the consignment, and (b) paid on merchandise belonging to the consignment returned by the consignee.

Credit Each Consignment Out Account:

¶ 2. For the net proceeds of the consignment as shown by the account sales.

Should the consignee send cash or accept a draft in part payment of the consignment, such part payments are credited to the consignment and deducted from the net proceeds.

¶ 3. *The Balance of Each Consignment Out Account* shows the net returns from the sales of merchandise belonging to the consignment; it is shown on the Statement of Profit and Loss as a return from sales.

If desired, the balance of each Consignment Out account may be closed into one account with Consignment Sales and the balance of this account shown on the Statement of Profit and Loss. The purpose of consigning merchandise is to effect sales, hence all returns from these sales are an addition to the sales of merchandise from stock; the amount of the consignment sales is shown separate from sales out of stock so that the management may have this additional information.

§ 233. Inventory of Consignments Out. Merchandise in the hands of the consignee is one of the assets of the business the same as merchandise in stock. No account sales from a consignee at the close of a fiscal period indicates to the consignor that the merchandise is still in the possession of the consignee. The value of this merchandise at cost price should be shown on the Balance Sheet as an asset under the caption "Consignment Goods". The value of merchandise on consignment at the close of the fiscal period does not affect the consignment account because this account was not debited with its value when it was shipped.

The debits (cost of shipping, etc.) to each Consignment Out account for which there has been no report of sales should be shown on the Balance Sheet in the same manner as deferred charges; the credits (part payment on account of goods consigned) to each Consignment Out account for which there has been no report of sales, should be shown on the Balance Sheet as a liability. Amounts paid for sending merchandise on consignment constitute a selling expense, but if no returns have been received on the consignment at the close of the fiscal period, these should not be included as a current expense, but should be carried over into the next period. Amounts received from the consignee, and credited to a Consignment Out account, are liabilities at the close of the fiscal period, because the value of merchandise consigned is shown in the Inventory account; unless these amounts are shown as liabilities, the statement will not be correct, because the account with cash or some other asset was debited at the time the credit was made.

*

CONSIGNMENT IN ACCOUNT

§ **234. The Purpose of this Account** is to show a record of the transactions which the consignee has with the merchandise consigned to him for sale. The title of the account should contain the term "consignment" and the name of the consignor, also the word "in" or "from" to indicate the nature of the account; thus "Consignment In, James Brown" or "Consignment from James Brown" indicates that merchandise has been received on consignment from James Brown by the business for which the books are kept. If desired, the consignments may be numbered consecutively and this number, together with the term "consignment" used as the title of the account; this method is followed in Illustrations Nos. 100-103.

Debit Each Consignment In Account:

¶ 1. For (a) amounts paid for freight, drayage and service costs; (b) cash or other assets given the consignor on account of sales; (c) merchandise belonging to the consignment returned by customers; and (d) commission, storage, insurance and other costs.

Credit Each Consignment In Account:

¶ 6. For the sales of merchandise belonging to the consignment, either for cash or on account.

¶ 7. *The Balance of Each Consignment In Account* shows an asset if the debit side is the larger, or a liability if the credit side is the larger. A debit balance indicates that the consignee has paid more for handling the goods than he has received from their sale; a credit balance indicates that the consignee has received more for the sale of the goods than the charges against the same. The balance of each Consignment In account is shown as a current asset or a current liability on the Balance Sheet prepared for the consignee.

If desired, the various consignment in accounts may be kept in a separate ledger and a controlling account with Consignments In or Consignment Ledger maintained in the general ledger. With this plan, the controlling account is debited and credited with totals only, special columns being provided for amounts posted to the various consignment in accounts in the consignment ledger.

§ **235. Inventory of Consignments In.** If, at the close of the fiscal period there is in stock merchandise which belongs to consignments from others, the value of this merchandise is not shown as an asset on the Balance Sheet of the consignee because it does not belong to him. The interest of the consignee in merchandise consigned to him is shown on the Balance Sheet by the various Consignment In accounts.

COMMISSION ACCOUNT

§ **236. The Purpose of this Account** is to show the net amount received as commission for selling merchandise on consignment.

Debit the Commission Account:

¶ 1. For any adjustments which reduce the amount of income from commission as shown by the credit to this account.

Credit the Commission Account:

¶ 2. For amounts deducted as commission from the proceeds of consignments at the time the account sales is rendered.

¶ 3. *The Balance of the Commission Account* shows the net returns from commission; it is shown as an operating or non-operating income on the Statement of Profit and Loss depending on the nature of the business.

July 1, 19

L.F	Name of Account and Explanation	General Dr	Cons Ledger Dr	General Cr
	(Synopsis of Partnership Agreement)			
	1			
	Inventory, July 1, 19	1550		
	Furniture and Fixtures	450		
	Building	2200		
	Land	1800		
	Notes Payable			1000
	Notes Payable			1000
	M. B. Thompson, Capital			4000
	Investment in partnership			
	2			
	Purchases	84334		
	Grainger Bros. (4/29 - 3/10, n/30)			26948
	W. H. Davenport & Son (4/30 - 5/10, n/30)			18762
	Donaldson Bros. (4/2 net 30 days)			38624
	Purchase invoices Nos 1, 2 and 3			
	4			
	Consignment No. 1		8450	
	Drayage (5%)			10
	Storage (5%)			10
	Commission (10%)			6450
	Rendered an account sales. Sent check for net proceeds.			
	29			
	Orr & Jackson	20		
CR 6	Consignment No 17			20
	Five crates Tomatoes (Cons No 17) returned and replaced from Consignment No 17	25	25	
✓	Total Credits			48048
	Consignment Ledger, Dr	22315	22315	
✓	Total Debits	48048		

Illustration No. 100, General Journal.

EXPLANATION. Two debit columns are provided, one for accounts in the consignment ledger and the other for accounts in the general ledger; only one credit column is necessary as the accounts in the consignment ledger are seldom credited from the general journal. Each amount entered in the "Consignment Ledger, Dr." column is posted to the debit of an account in the consignment ledger; the total of this column is posted to the debit of the Consignment Ledger account in the general ledger at the end of the month.

*The break indicates a number of entries omitted.

Cash

July 19

Date	L.F	Account Credited	Explanation	Receipts General Cr	Receipts Cons. Ledger Cr	Receipts Sales Cr
1		J. B. Strong Capital	Investment	4000		
3	✓	Sales	Cash sales			16297
		Consignment No 1	100 crts Berries @ 3.20		320	
		Consignment No. 2	25 doz Melons @ 3.60		90	
		Consignment No. 3	50 bsk Beans @ 1.75		87.50	
			3074.69	4000	497.50	16297
6	✓	Sales	Cash sales			13695
17		Notes Receivable	Discounted note 7/12	25423		
		Interest Earned	On above note	21		
			194123	1803.37	452	24856
18		C. L. Waswell & Son	In full of acct	57450		
22		M & M Cons Out No 1	Net proceeds	158950		
24	✓	Sales	Cash sales			38742
		Consignment No 8	20 doz Melons @ 3.80		76	
		Central Hotel	In full of acct	78		
				729542	165315	195681
		Sales Cr		195681		195681
		Consignment Ledger Cr		165315	165315	
		Cash, Dr 9356.45 (10905.38 – 1548.93)		10905.38		

Illustration No. 101, Receipts Side of Cash Book.

EXPLANATION. The ruling is similar to that in Illustration No. 29, except that two special columns are provided, one for cash sales of merchandise belonging to consignments and the other for cash sales of merchandise from stock. Each amount entered in the "Consignment Ledger, Cr." column is posted to the credit of an account in the consignment ledger; the total of this column is posted to the credit of the Consignment Ledger account in the general ledger at the end of the month.

STORAGE ACCOUNT

§ 237. **The Purpose of this Account** is to record the storage charges on consignments. Storage refers to the charges made by the consignee for the space occupied by the merchandise belonging to the consignor. This storage charge is based on the rent cost to the consignee.

Debit the Storage Account:

¶ 1. For allowances which reduce the income from storage as shown by the credit to this account.

Credit the Storage Account:

¶ 2. For the amount deducted as storage from the sales of each consignment at the time the account sales is rendered.

¶ 3. *The Balance of the Storage Account* shows the income from storage. It is shown as one of the non-operating incomes on the Statement of Profit and Loss. If desired, the credit to the Storage account may be shown on the Statement of Profit and Loss as a deduction from the cost of rent.

*The break indicates a number of entries omitted.

Date	L F	Account Debited	Explanation	General Dr	Cons Ledger Dr	Purchases Dr
2		Freight-In	On merchandise	136 30		
		Consignment No. 1	Freight		45 62	
		Consignment No. 2	"		35 [illegible]	
		Consignment No. 3	"		62 [illegible]	
		Delivery Equipment	Truck	800		
	✓	Purchases	Brown Bros	936 50	[illegible] 18	503 [illegible]
5		Consignment No. 1	Net proceeds		511 58	
16		Consignment No. 4	2 crates Berries retd		5 20	
		C. C. Watson & Bro	Acct net proceeds	100		
17	✓	Purchases	G. D. Davis	197 50	5 20	360 [illegible]
18		Freight-In	On merchandise	26 48		
		Selling Expense	J. B. Sr. salary	150		
				2861 54	1790 31	2772 53
		Purchases Dr		2772 53		2772 53
		Consignment Ledger Dr		1790 31	1790 31	
		Cash Cr		7424 38		
				10705 38		

Illustration No. 102, Payments Side of Cash Book.

EXPLANATION. The ruling is similar to that in Illustration No. 30, except that two special columns are provided, one for accounts in the consignment ledger and the other for cash purchases of merchandise. Each amount entered in the "Consignment Ledger, Dr." column is posted to the debit of an account in the consignment ledger; the total of this column is posted to the debit of the Consignment Ledger account in the general ledger at the end of the month.

DRAYAGE ACCOUNT

§ **238. Drayage** refers to the cost of hauling the merchandise belonging to the consignor, either from the station to the warehouse or from the warehouse to the customers. The amount charged the consignor is approximately the same as the cost to the consignee. The debits and credits to this account are the same as those to the Storage account, because their nature is the same. The balance, which will be a credit, may be shown on the Statement of Profit and Loss as a non-operating income or as a deduction from the total cost of drayage.

COMMISSION SET

This is a practice set without vouchers consisting of the transactions for two months, performed by Thompson & Strong, partners engaged in the commission business. The transactions are separate from the text and are included with the books of account necessary to record them. The purpose of this set is to provide practice in recording transactions peculiar to a commission business.

*The break indicates a number of entries omitted.

July 2, 19

Inv No	L F	Name of Account and Explanation	Cons No	Cons Ledger Cr.	Sales Cr.	Accts Rec. Dr.
1		D. B. Anderson, Clinton				328 80
		50 crates Berries	3 25 1	162 50		
		8 doz Melons	3 60 2	28 80		
	✓	10 bu. Onions	1 75		17 50	
	✓	100 " Potatoes	1 20		120	
		2				
2		Robt. Foster & Son, 916 Broadway, City				304 23
		10 baskets Beans	1 75 3	17 50		
		50 crates Berries	3 25 1	162 50		
	✓	100 sacks Corn, 976#	75		124 23	
		29				
19		Armstrong Bros. City				257 50
		25 crates Tomatoes	2 00 17	50		
		50 baskets Pears	1 65 14	82 50		
	✓	100 bu. Potatoes	1 25		1 75	
				1993 25	2861 07	4854 32
		31				
	✓	Accounts Receivable				4854 32
		Sales			2861 07	
		Consignment Ledger		1993 25		

Illustration No. 103, Sales Journal.

EXPLANATION. This sales journal is similar to Illustration No. 19, except that a special column is provided for sales of merchandise belonging to consignments. Each amount entered in the "Consignment Ledger, Cr." column is posted to an account in the consignment ledger; the total of this column is posted to the credit of the Consignment Ledger account in the general ledger at the end of the month.

QUESTIONS

1. What entry is made for the value of merchandise received from the owner to be sold for him?
2. What is the difference between merchandise purchased by the business and merchandise received by it on consignment, in so far as title is concerned?
3. Why is it advisable for the consignee to keep consigned goods separate from goods owned by him?
4. What is the difference between a consignment inward and a consignment outward?
5. How does the consignor secure a profit on the merchandise on consignment? the consignee?
6. How is a Trial Balance made from the consignment ledger when there is an account in the general ledger with Consignment Ledger?
7. How is the value of merchandise belonging to a consignment in shown on the Balance Sheet?
8. How is the value of merchandise belonging to a consignment out shown on the Balance Sheet?
9. What is the purpose of (a) the Storage account, and (b) the Drayage account?
10. How are the balances of the Storage and Drayage accounts shown on the Statement of Profit and Loss?

Part Three—Corporation

Chapter XXV

§ 239. **Introduction.** The purpose of the discussion in this and succeeding chapters is to familiarize the student with the application of the principles of accounting to a business operated as a corporation; also to give additional practice in recording transactions, preparing reports and closing the ledger. Two practice sets applicable to a corporation business, separate from the text, accompany this division. The accounting principles involved in connection with recording these transactions are applicable to a business owned and operated by a sole proprietor or partnership, as well as a corporation, with the exception of those which affect accounts peculiar to a corporation.

§ 240. **A Corporation** is defined by the Supreme Court of the United States as "an association of individuals united for some common purpose and permitted by the law to use a common name, and to change its members without dissolution of the association." This means that the corporation is an artificial person created by law for the purpose of operating a specific business. When brought into existence by law, the corporation has the same privileges accorded any citizen governed by the same law and engaged in a business of like nature. The contracts executed by the corporation are under the corporate name, and in its legal relation it is known only by this name, the same as an individual is known by his name.

John Smith, a citizen of Ohio, owns and operates an automobile business in Cleveland, Ohio, under the name of the Central Garage. The Citizens Motor Car Company, a corporation under the laws of Ohio, operates an automobile business in the same city, under the name of "The Citizens Motor Car Company." If John Smith fails to pay a debt incurred by him, and the one to whom it is due seeks settlement through the courts, the summons to appear in court will be addressed to John Smith and not the Central Garage, because he is the individual who is responsible. If The Citizens Motor Car Company fails to pay an account, and the one to whom the debt is due seeks settlement through the courts, the summons to appear in court will be addressed to The Citizens Motor Car Company because this is the legal title of the corporation. John Smith and The Citizens Motor Car Company each have equal rights under the law, in so far as legal rights relate to the automobile business. However, John Smith could, if he desired, add to his automobile business any other line of merchandise, but The Citizens Motor Car Co. could not do this unless the right granted it by the State included other lines of merchandise, because it was created for a specific purpose and cannot engage in any other line outside of that authorized by the law which created it.

§ 241. **The Purpose of a Corporation** is (a) to provide capital for the operation of a business enterprise, (b) to distribute the risk of investors, and (c) to centralize control. The corporate form of proprietorship permits the investor with a small amount of money to invest in a business enterprise which may pay him a profit on the investment, but which may not require any part of his time in connection with its operation. Where one has money to invest, it is preferable to invest small amounts in different enterprises rather than the entire amount in one enterprise; this is especially true where the investor does not expect to take an

active interest in the operations of the businesses in which he invests. Distribution of the investment may result in a profit on a part or all of them; investment in one enterprise will result in either a profit or a loss.

Arthur Mays has invented a device for automatically removing water from the windshield of an automobile while it is raining. He is advised by those experienced in the automobile business that this should prove to be a salable article, but he does not have sufficient capital to provide for its manufacture. By combining his capital and that of a number of others who realize the merits of the invention, the necessary capital may be provided. The corporate form of proprietorship would be preferable, because it is possible that those who wish to invest small amounts in this enterprise would not care to participate in the management of the business.

§ 242. Comparison of the Corporation and the Partnership. A corporation differs from a partnership in the manner of organization, method of conducting the business, responsibility of investors, and the manner of dissolution. Both are formed for the same purpose—the combination of capital for the promotion of a business enterprise. The partnership is formed by contract; the corporation is created by the authority of the law of the state in which it is organized. The affairs of the partnership are usually conducted by the partners; the affairs of the corporation are in charge of officials who are elected by those who have invested capital in the corporation. Each partner in a partnership is individually responsible for all the debts contracted through the operation of the business; the investor in a corporation is not responsible for all of the obligations of the corporation, because these debts are contracted in the name of the corporation and must be collected out of the assets of the corporation. (The responsibility of the investor in a corporation is limited by the law which authorized the corporation.) A partnership continues during the time specified in the contract, unless dissolved by a decree of court, by agreement, by the death of a partner, the withdrawal of a partner or the disability of a partner; the corporation continues during the time authorized, and is not affected by the death, legal disability, or withdrawal of any one of those who have invested capital in it. Since the right to continue as a corporation may be renewed an indefinite number of times, it is sometimes said, "a corporation never dies." A partner in a partnership may sell his interest in the partnership only with the consent of the other partners; each investor in a corporation may sell his interest at will, without consulting the other members.

Arthur Mays would have considerable trouble in securing the necessary capital to promote the manufacture and sale of his invention if each investor were responsible for all of the debts which might be contracted in connection with the operation of this business. However, if each investor knew that he would not lose any more than the amount invested, provided the business did not prove to be profitable, he might be willing to take a chance and invest a small amount. Arthur Mays might hesitate to ask a friend to invest in his enterprise if he knew that his friend might be required to pay obligations which the business could not pay, but if he knew that his friend took no chance other than the loss of the amount invested, he would not hesitate to seek an investment from him.

§ 243. Proprietorship in a Corporation. When one individual owns and operates a business, he has full control of the same, and the proprietorship is vested in him. When two or more partners own and operate a business, the proprietorship is vested in the partnership, each partner possessing the right to act for the other partner or partners; as the proprietorship is vested in the partnership, neither partner has the right to withdraw or dispose of his interest without the consent of the others. When a business is operated as a corporation, the proprietorship is vested in the corporation because it is an artificial person created by law for the purpose of operating a specific business. Each investor in the corporation has certain legal rights in connection with its operations which he may transfer by sale or gift without consulting any other investor. The value of the proprietary interest of a partner in the business is fixed by the Articles of Copartnership; the value of each unit of proprietorship in a corporation is fixed by the state law granting corporate authority to the corporation.

The proprietorship in a corporation is usually divided into units of equal value; the value of each unit is usually $100.00, but may be $1.00, $10.00, $50.00, or any other amount permitted by law. Each unit is usually referred to as a "share" or "a share of stock" in the corporation. Each investor may own one or more of these shares; thus, if the value of each unit is $100.00, and a stockholder purchases three units, then his proprietary interest or investment is $300.00.

Arthur Mays decides that it will require $25,000.00 capital to promote the manufacture and sale of his patent. He decides to make the value of each unit or share $50.00, so it will not be necessary for those who are interested to invest a large amount unless they prefer to do so. This means that the proprietorship of the corporation will be divided into five hundred shares, and that these shares may be owned by five hundred different persons, each holding one share, or by a lesser number of individuals, provided more than one share is owned by one or more investors.

§ 244. **Capital and Capital Stock.** The capital (proprietorship) of a corporation is the assets minus the liabilities; that is, the net amount remaining after all the debts have been paid. Capital stock is the maximum amount which the investors in the corporation are authorized to invest. If at the beginning of the corporation the full amount of capital stock is subscribed and paid for at its par value, the capital and capital stock of the corporation will be the same at that time; however, it will not remain the same because the net assets of the corporation will either increase or decrease through the operations of the business. Each investor (stockholder) has the same interest in the net capital as he has in the outstanding capital stock; one who owns one-thousandth of the capital stock of the corporation also owns the right to one-thousandth of the capital of the corporation.

If Arthur Mays receives $25,000.00 cash from the investors in the corporation which is to promote the manufacture and sale of his patent, the capital and capital stock of the corporation at the beginning is $25,000.00. If at the end of the first year, the assets of the corporation are $40,000.00 and the liabilities are $10,000.00, the capital or proprietary interest at that time is $30,000.00.

§ 245. **The Method of Organizing a Corporation** is prescribed by the law of the state in which it is organized. On page 250 is given the procedure for organizing a corporation in New York (at the left), and Illinois (at the right); the method in each of the other states is practically the same, except the par value of stock, the minimum number of stockholders at the beginning, and the amount of investment required before the certificate of incorporation is granted.

§ 246. **The Charter** of a corporation is a certificate signed by the incorporators and approved by the proper state officials; it is the written authority under which the corporation does business. Illustration No. 104 shows the form of a charter. When the charter is granted, the corporation comes into existence; and remains in existence until the expiration of the time for which the charter is granted or until dissolved by legal procedure.

§ 247. **When the Charter has been Granted,** the corporation is ready to begin business. The first business to be performed is to sell the stock, that is, secure cash or other property from those who are to invest in the corporation. The purpose of the corporation is to provide capital for a business enterprise, and this capital is secured through the sale of its stock to those who wish to invest. Some states require that a part of the capital stock be subscribed for before the charter is issued; in these states, it is customary to have those who wish to invest in the corporation subscribe in writing for the number of shares to be purchased. Where a part of the capital is not to be paid in until after the corporation is formed, these written promises for the subscription to stock may be secured after the charter is granted. When the necessary capital has been provided through the sale of stock, the corporation is ready to begin its business activities.

New York

"Except as provided in section 2a of this chapter, three or more persons may become a stock corporation for any lawful business purpose or purposes, by making, signing, acknowledging, and filing a certificate which will contain:

1. The name of the proposed corporation.
2. The purpose or purposes for which it is to be formed.
3. The amount of capital stock, and if any portion be preferred stock the preferences thereof.
4. The number of shares of which the capital stock shall consist, the value of which shall not be less than five nor more than one hundred dollars and the amount of capital not less than five hundred dollars, with which the said corporation will begin business. [By amendment of the original law, stock may now be issued which has no par value.]
5. The city, village, or town in which its principal business office is to be located. If it is to be located in the city of New York, the borough there in which it is to be located.
6. Its contemplated duration. This may be made perpetual.
7. The number of its directors, not less than three.
8. The names and post office addresses of the directors for the first year.
9. The names and post office addresses of the subscribers to the certificate of incorporation and the number of shares in the corporation subscribed by each."

The certificate must be signed by the three or more persons who make application for the charter and their signatures acknowledged by a Notary Public or other designated official.

Illinois

"A corporation may be formed for any lawful purpose (except banking, insurance, real estate brokerage, operation of railroads, and loaning money) whenever three or more persons, citizens of the United States, at least one of whom shall be a citizen of Illinois, shall sign, seal, and acknowledge a statement of incorporation setting forth:

1. Names and post office addresses of the incorporators.
2. Name of the proposed incorporation.
3. A clear and definite statement of the object or objects for which it is formed.
4. The period of duration.
5. Location of the principal office in this State, giving town or city, street and number, if any.
6. Number of shares into which the capital stock is to be divided, whether all or part of same shall have par value, and if so, the par value thereof, which shall not be less than $5.00 nor more than $100.00 a share; whether all or part of the same shall have no par value; and if there is to be more than one class of stock created, a description of different classes, number of shares of each, and relative rights, interests and preferences each class shall represent.
7. Names and addresses (give street and number) of the original subscribers to the capital stock and amount subscribed by each.
8. Total amount of authorized capital stock.
9. Amount of such stock it is proposed to issue at once, which shall not be less than $1,000.00.
10. The payment of at least one-half of the capital stock having a par value and of not less than $5.00 per share for each share of capital stock having no par value, which it is proposed to issue at once, with a description of the nature and value of the property, if any, paid for such capital stock.
11. Number, names, and post office addresses of directors by street and number, at least one of whom shall be a resident of this State, and the term for which elected."

Procedure for the Organization of a Corporation in New York and Illinois

§ **248. A Stockholder** in a corporation is a person who owns one or more shares of stock in the corporation. He may have come into possession of this stock through purchase from the corporation itself, or through purchase or gift from another stockholder; in either case his ownership is evidenced by a written statement known as a certificate of stock, Illustration No. 107, and by the proper record of this certificate on the books of the corporation.

Robert C. Brown subscribes and pays for four shares of stock in the corporation organized by Arthur Mays for the purpose of promoting the sale of his patent, the windshield cleaner. Mr. Brown will receive, as evidence of the cash paid, a written statement in the form of a certificate of stock, showing the name of the corporation, the number of shares he has purchased, and the par value of each. This is property which belongs to Robert C. Brown and which he can dispose of at will.

Charter of Incorporation

Be it known that J. C. Wilson, J. W. Jones, R. L. Wood, E. E. Miller, and W. S. Shields, all more than twenty-one years old, are hereby constituted a body politic, and corporated by the name and style of the Union Printing and Publishing Company, with a capital stock of Fifty ($50,000.00) Thousand Dollars.

The general powers of said corporation are:

1. To sue and be sued by the corporate name.

2. To have and use a common seal, which it may alter at pleasure; if no common seal, then the signing of the name of the corporation by any duly authorized officer shall be legal and binding.

3. To purchase and hold, or receive by gift, any addition to the personal property owned by said corporation, any real estate necessary for the transaction of the corporate business, and also to purchase and accept any real estate in payment or part payment of any debt due to the corporation, and sell realty for corporation purposes.

4. To establish by-laws and make all rules and regulations, not inconsistent with the laws and constitutions, deemed expedient for the management of corporate affairs.

5. To appoint such subordinate officers and agents, in addition to the President, Secretary, and Treasurer, as the business of the corporation may require.

6. To designate the name of the office, and fix the compensation of the officers.

7. To borrow money and issue notes or bonds upon the face of the corporate property, and also to execute a mortgage or mortgages as further security for the repayment of money thus borrowed.

The following provisions and restrictions are coupled with said grant of powers:

1. A failure to elect officers at the proper time does not dissolve the corporation, but those in office hold until election, or appointment and qualification of their successors.

2. The term of all offices may be fixed by the by-laws of the corporation; the same, however, not to exceed two years.

3. The corporation may, by by-laws, make regulations concerning the subscription for, or transfer of stock; fix upon the amount of capital to be invested in the enterprise; the division of the same into shares; the time required for the payment thereof by the subscribers to the stock; the amount to be called in at one time. The right of action should exist in a corporation to sue a defaulting stockholder for the failure to pay for stock subscribed to, when called upon to do so.

4. The corporation shall have power to purchase type, presses, paper, etc., for the purpose of printing newspapers, books, pamphlets, etc., and in general, to execute all orders for printing books, and the execution of all orders for job work usually undertaken and performed in first-class printing and publishing associations.

5. The Board of Directors shall consist of five or more members at the option of the corporation, to be elected either in person or by proxy by the majority of the votes cast, each share representing one vote.

6. A majority of the Board of Directors shall constitute a quorum, and shall fill all vacancies until next election. The first Board of Directors shall consist of five or more incorporators who shall apply for, and obtain the charter.

7. The books of the corporation shall show the original and subsequent stockholders, their respective interests, the amount which has been paid on the shares subscribed, the transfer of stock, and other transactions in which it is presumed the stockholders or creditors may have an interest.

8. By no implication or construction shall the corporation be deemed to possess any powers, except those hereby expressly given or necessarily implied from the nature of the business for which the charter is applied.

We, the undersigned, apply in the State of Tennessee, by virtue of the law of the land, for a charter of incorporation for the purpose of, and with the powers declared in the foregoing instrument.

Witness our hand, August 16, 1922.

Illustration No. 104, Charter of Incorporation (Tennessee).

EXPLANATION. It will be observed that the par value of each share is to be fixed by the Board of Directors, and is not stated in the charter; also that the number of incorporators is five instead of three, as required in New York and Illinois.

§ 249. Classification of Stock. Those who make application for the charter designate the rights and privileges of the stockholders in the corporation. If some of the stock carries with it rights and privileges not granted to the other stock, it will be necessary to indicate this in the certificate of stock issued to each stockholder. There are usually two kinds of stock issued, common and preferred.

The discussion of common and preferred stock given in §§ 250 and 251 is for the information of the bookkeeper in recording the transactions in connection with the transfer of corporate stock. The legal distinction between these two classes of stock may be ascertained from a study of corporation law and the laws of the various states authorizing the organization of corporations.

§ 250. Common Stock. Common stock is that issued to stockholders who are to participate in the management of the business, and to share in the

profits which may result from its operations without financial preference. The term "common" as used in connection with the stock in a corporation is not to be interpreted as meaning that this stock has less value than other stock issued by the corporation. It is used only to distinguish between the stock which has no financial preference and that which has financial preference.

§ 251. **Preferred Stock.** Preferred stock is that issued to stockholders who wish to have the amount of the income from their investment in the corporation stated, and who do not care to take an active part in the management of the corporation. This statement is not to be interpreted as meaning that the preferred stockholders do not have the privilege of taking an active part in the management of the business, as this is often permitted through the authority given in the charter. Preferred stock always specifies a fixed rate of dividend. If this dividend is payable out of the profits of each year, the preferred stock is "non-cumulative;" if the dividend is to be paid out of future profits, when the profits of each year are not sufficient to pay the rate, it is "cumulative."

§ 252. **No Par Value Stock** refers to stock issued without value in those states which authorize corporations to issue no par value stock. The laws in these states set a minimum (nominal) value at which no par value stock may be issued; thus, in Illinois at least $10.00 must be collected for each share of no par value stock before the corporation is authorized to issue the stock. The market value of each share of no par value stock is determined by dividing the proprietorship (net assets) of the corporation by the total number of shares issued.

The purpose of issuing stock with no par value is to encourage those who wish to invest in corporation stock to ascertain the real value of the stock before purchasing it, rather than to base the purchase price on the par value as stated in the certificate. The value of a certificate of stock which states that the holder is entitled to ten shares of stock in the corporation, par value $100.00 per share, may or may not be $1,000.00; yet the buyer might be induced to pay $1,000.00 for it because of this statement. If the statement in the certificate were to the effect that the holder was entitled to ten shares of stock in the corporation, without any value placed on the stock, the purchaser could ascertain the value only from a knowledge of the number of shares which the corporation had issued and the value of the net assets of the corporation.

§ 253. **Unissued Stock** is that stock which is authorized in the charter but has not been issued to stockholders; it has no monetary value because it has not been issued. Under no condition should unissued capital stock be recorded as an asset, or confused with treasury stock. It is customary to record the unissued capital stock on the books of the corporation so that each stockholder may know from the report submitted to him by the accounting department, the par value of the stock which the corporation has the authority to issue, but which has not yet been issued.

§ 254. **Treasury Stock** is capital stock which has been fully paid up and issued, but, through purchase or gift, comes back into the possession of the corporation. A corporation has the right to purchase its own stock unless the state law under which it was organized forbids it. As a rule, corporations are not permitted to buy their own stock because this would defeat the purpose of the corporation, which is to distribute the ownership of the stock among many. Unissued capital stock must not be confused with treasury stock; the former represents stock which has not been issued, and the latter, stock which has been issued, but later acquired by the corporation through purchase or donation.

Stock purchased may be illustrated as follows: a corporation wishes to have each of its employees own one or more shares of its stock. To encourage this, it agrees to buy back the stock held by an employee should he leave the employ of the corporation. Stock is issued to an employee and recorded in the same manner as stock issued and sold to another. Should the employee sever his connection with the corporation, his stock would be purchased by the corporation and held in the treasury until sold again.

Stock donated to a corporation may be illustrated as follows: the stockholders of a corporation engaged in the manufacture of automobiles plan to bring out a new model; however, they wish to have it thoroughly tried out before offering it on the market. The common stockholders decide to donate to the corporation a designated number of shares of their stock to be sold in order to provide funds for developing the new car. This stock, when received by the corporation, will be recorded as treasury stock and held as such until it is sold.

§ **255. Value of Stock.** Stock in a corporation may have four different values, as follows:

(1) The par value is the amount stated in the certificate; no par value stock does not have a par value.

(2) The market value is the price at which the stock is quoted on a Stock Exchange, or at which it can be sold; stock quoted at ".79" is worth $79.00 for each share.

(3) The book value of stock is the par value plus the surplus or the par value minus the deficit. If the capital stock is one hundred thousand dollars and the surplus ten thousand dollars, each hundred dollar share of stock has a book value of one hundred and ten dollars; if there is no surplus, but a deficit of ten thousand dollars, the book value is ninety dollars per share.

(4) The real value is the amount that would be received for the stock if the assets of the corporation were liquidated; the real value and the book value would be the same if the assets were sold for the value recorded on the books of the corporation.

§ **256. A Dividend** is that part of the profit of the corporation distributed to the stockholders. The Board of Directors determines the amount of profit to be distributed as dividend, and the amount to be retained as surplus. The dividend is usually a certain per cent of the par value of the stock; a dividend of 6% means that each stockholder who owns $100.00 par value of stock in the corporation will receive $6.00 dividend.

§ **257. An Assessment** is the reverse of a dividend; that is, the stockholder is required to pay to the corporation a certain per cent of the par value of the stock he holds instead of receiving from the corporation a certain per cent of the par value of his stock. Assessments are necessary when the working capital of the corporation has been impaired through the operations of the business, and it is necessary to procure additional working capital in order to continue the operation of the business. Each stockholder must pay the assessment levied by the Board of Directors unless the stock he holds is non-assessable; the stockholder who holds stock subject to assessment and refuses to pay, becomes a debtor to the corporation, and the amount can be collected in the same manner as any other debt.

§ **258. The Surplus** of a corporation is that part of the profit which has not been distributed to stockholders in dividends. This surplus is one of the liabilities of the corporation to the stockholders. The proprietorship of the corporation is the outstanding capital stock plus the surplus.

§ **259. Bonds.** A bond is a long-time note arranged in a special form. Bonds are usually issued in denominations of $100.00, $500.00, and $1000.00, and usually secured by a mortgage on real estate or personal property owned by the corporation. Each bond is composed of two sections: one, the bond itself, which is the written promise of the corporation to pay the amount mentioned; and the other, the interest coupons, that is, the written promises of the corporation to pay annually or semi-annually a certain amount of interest. A bond of $1,000.00 payable in twenty years, with interest payable semi-annually at 6%, would have forty coupons, each coupon being a written promise or obligation of the corporation executing the bond to pay $30.00. On the due date of each coupon, the holder of the bond detaches it from the bond, and presents it to the trustee

(usually a bank or trust company) for collection. When the bond referred to is due, at the end of twenty years, all of the coupons will have been removed. Bonds are issued by both public and private corporations; that is, a city, a county or a state may borrow money by issuing bonds in the same way as an incorporated railroad or other business enterprise.

§ **260. Sinking Fund** refers to assets owned by the corporation, but usually in the hands of a trustee who represents the bondholders. When a mortgage is given to secure the bondholders, this usually specifies the amount of cash or other assets to be placed in the hands of the trustee each year, so that he may have available, at the maturity of the mortgage, funds with which to pay the bonds it secures. The mortgage usually specifies the nature of the securities to be purchased by the trustee with the cash received from the corporation.

§ **261. Sinking Fund Reserve** refers to a yearly reserve set up against current profits in anticipation of the payment of bonds at maturity; the amount of this yearly reserve is usually based on the number of years the bonds have to run—one-tenth of the amount if they mature in ten years, one twentieth if they mature in twenty years, one fiftieth if they mature in fifty years. After the net profit for each year is closed into the Surplus account, that part of the profit to be set aside as reserve is taken out of the Surplus account and credited to the Sinking Fund Reserve account. At the maturity of the bonds, the Sinking Fund Reserve Fund account will have a credit equal to the par value of the bonds and is transferred to the Surplus account.

A sinking fund differs from a sinking fund reserve in that, in the former, the cash is given to the trustee and invested by him in securities according to the terms of the mortgage, while in the latter, a part of the profit is credited to the reserve account and the cash remains as working capital for the corporation. The investor in a bond should be assured that his investment is well secured and that his interest is safeguarded throughout the life of the bonds.

§ **262. Method of Conducting the Business of a Corporation.** The affairs of a partnership are conducted by the partners or managers selected by them. The affairs of a corporation are directed by the officers elected by the Board of Directors. The members of the Board of Directors are elected by the stockholders, each stockholder, whose stock permits him to vote, being entitled to one vote for each share of stock which he owns. After the organization of the corporation is completed, the stockholders meet and elect a Board of Directors who are responsible to them for the management of the affairs of the corporation. The Board of Directors elect from their number officers who are responsible to them for the detailed operations of the business, usually President, Secretary and Treasurer, whose duties are fixed by the Board of Directors. Stockholders meet annually to elect a Board of Directors; this Board usually elects the officers at the same time. One stockholder might control the entire operations of the corporation if he owned more than fifty per cent of the stock, because he could elect the Board of Directors, and through his control of the majority of the stock, elect the officers. The law under which a corporation is formed usually prohibits one stockholder from owning all the stock, but there is no law which prohibits a stockholder from purchasing the majority of the stock.

§ **263. Income Tax for a Corporation.** Each corporation is required to pay a Federal Income Tax on its net income the same as an individual. The amount of the tax is specified in the law which requires its payment. This tax is levied on the net income, which is defined as "gross income less the deductions allowed." For the purpose of applying the federal income tax, corporations are divided into

two classes, corporations and personal service corporations. The latter title is used to distinguish between the smaller corporations in which each stockholder takes an active interest in the business, and the larger corporations where the stockholder purchases stock as an investment and takes no active interest in the business.

Quoting from the Revenue Act of 1921:

"The term 'personal service corporation' means a corporation whose income is to be ascribed primarily to the activities of the principal owners or stockholders who are themselves regularly engaged in the active conduct of the affairs of the corporation and in which capital (whether invested or borrowed) is not a material income-producing factor; but does not include any foreign corporation, nor any corporation 50 per centum or more of whose gross income consists (1) of gains, profits, or income derived from trading as a principal, or (2) of gains, profits, commissions, or other income, derived from a government contract or contracts made between April 6, 1917, and November 11, 1918, both dates inclusive."

The tax of a personal service corporation is more of the nature of the tax imposed on a partnership as the taxes are paid by the individual stockholders and not by the corporation.

§ **264. Bookkeeping for a Corporation.** The nature of the work required to record the transactions performed by a corporation does not differ from that required to record the same transactions performed by a partnership. The only difference between keeping books for a corporation and for a partnership, is the addition of accounts required to record the capital invested in the corporation and addition of accounts required to record the capital invested in the corporation and the profits resulting from its operations. These accounts are discussed in Chapter XXVI.

QUESTIONS

1. Give three reasons why you would prefer having money invested in a corporation instead of in a partnership.
2. In what respect does a corporation differ from an individual?
3. What are the requirements for forming a corporation in your home state?
4. When would common stock be more valuable than preferred stock?
5. What are the four values that may be attached to stock? Explain each.
6. What is the difference between par value and no par value stock? Explain the reason for each.
7. Why does stock sell (a) for more than its par value; (b) for less than its par value?
8. Why should a corporation be willing to pay more than the book value for the assets of a going business which it purchases?
9. Would the sales on account in a retail business operated by a corporation be recorded in a different manner than they would in a business of the same nature owned and operated by partners?
10. What authority does a stockholder in a corporation have in connection with the operations of the business of the corporation?

Chapter XXVI

ACCOUNTS PECULIAR TO A CORPORATION

The Purpose of this Chapter is to explain the accounts which are peculiar to a corporation; these include the accounts necessary to record the proprietorship of the corporation and the transactions which occur only in the operations of a business conducted by a corporation. The accounts discussed are Capital Stock, Unissued Capital Stock, Subscribers to Capital Stock, Subscriptions to Capital Stock, Treasury Stock, Donated Treasury Stock, Surplus, Dividend, Organization Expense, Bonds Payable, and Goodwill.

CAPITAL STOCK ACCOUNT

§ **265. The Purpose of this Account** is to show the par value of the capital stock authorized by the charter, or the par value of the capital stock issued and not canceled. There are two methods of keeping the Capital Stock account: with one method, the Capital Stock account is credited with the amount of the capital stock authorized by the charter at the time it is granted; with the other method, the Capital Stock account is credited only with that part of the capital stock issued.

Debit the Capital Stock Account:

¶ 1. For the par value of stock withdrawn by amendment to the charter; or when the corporation is dissolved, for the par value of capital stock as shown on the credit side.

Credit the Capital Stock Account:

¶ 2. For (a) the par value of capital stock authorized by the charter or by amendment thereto, or (b) the par value of capital stock at the time the stock is issued.

¶ 3. *The Balance of the Capital Stock Account* will show (a) the par value of the authorized capital stock of the corporation when credited with the full authorized capital stock at the time of organization; or (b) the par value of the capital stock issued and outstanding when credited with the stock as issued. The par value of the authorized capital stock and the par value of the capital stock issued are shown on the Balance Sheet.

UNISSUED CAPITAL STOCK ACCOUNT

§ **266. The Purpose of this Account** is to show the par value of the unissued capital stock; that is, the stock authorized by the charter but not sold and issued. This account is not needed when the capital stock is all issued at the time of organization, nor when the Capital Stock account is used to show the par value of stock issued.

Debit this Account:

¶ 1. For the par value of the capital stock authorized by the charter when this amount is credited to the Capital Stock account at the time of organization.

Credit this Account:

¶ 2. For the par value of the capital stock issued when the amount of the authorized capital stock is recorded on the debit side of this account.

¶ 3. *The Balance of the Unissued Capital Stock Account* shows the par value of unissued capital stock. It has no value until sold, hence is shown on the Balance Sheet as a deduction from the authorized capital stock.

SUBSCRIBERS TO CAPITAL STOCK ACCOUNT

§ 267. **The Purpose of this Account** is to show the amount due from those to whom the capital stock has been sold on the deferred payment plan. This account is not needed when the subscribers pay for their stock at the time it is purchased.

Debit the Subscribers to Capital Stock Account:

¶ 1. For the par value of capital stock subscribed but not paid for.

Credit the Subscribers to Capital Stock Account:

¶ 2. For cash or other assets received from subscribers to apply on stock subscribed.

¶ 3. *The Balance of the Subscribers to Capital Stock Account* shows the amount owed by subscribers for capital stock purchased but not paid for. It is shown on the Balance Sheet as a current asset unless the payments are extended over a long period, in which case it is shown as a separate item below the current assets and above the fixed assets.

SUBSCRIPTIONS TO CAPITAL STOCK ACCOUNT

§ 268. **The Purpose of this Account** is to show the par value of stock subscribed but not issued because it has not been paid for. This account is not needed when the subscribers pay for their stock at the time it is purchased.

Debit the Subscriptions to Capital Stock Account:

¶ 1. For the par value of stock issued to subscribers.

Credit the Subscriptions to Capital Stock Account:

¶ 2. For the par value of capital stock subscribed.

¶ 3. *The Balance of the Subscriptions to Capital Stock Account* shows the par value of capital stock subscribed but not issued because the subscribers have not paid their subscriptions. It is shown on the Balance Sheet as an addition to the capital stock outstanding, or, if no stock has been issued, as the only item of proprietorship.

TREASURY STOCK ACCOUNT

§ 269. **The Purpose of this Account** is to show the par value of treasury stock owned by the corporation. This stock has no connection with unissued capital stock, and the facts recorded in this account apply only to the stock of the corporation which has been fully paid up and issued but has come back into the possession of the corporation through purchase or donation (§ 254).

Debit the Treasury Stock Account:

¶ 1. For the par value of the capital stock of the corporation purchased by or donated to it.

Credit the Treasury Stock Account:

¶ 2. For the par value of treasury stock sold.

¶ 3. *The Balance of the Treasury Stock Account* shows the par value of the treasury stock owned by the corporation. It is shown on the Balance Sheet as a deduction from the balance of the Capital Stock account.

TREASURY STOCK DONATED ACCOUNT

§ 270. **The Purpose of this Account** is to show the par value of stock donated to the corporation, and after it is sold, the capital resulting from its sale. When the donation is made, the Treasury Stock account is debited, and the Treasury Stock Donated account is credited with the par value. When the stock is sold,

*

Cash or the account which shows the value of the asset received for it, is debited, and the Treasury Stock account is credited; if sold at a discount or premium, the difference between the par value of the stock and the amount received is debited or credited to the Treasury Stock Donated account. Cash or other assets which come into the possession of the corporation through donation increase the capital of the corporation and it is necessary to record this increase.

Debit the Treasury Stock Donated Account:

¶ 1. For the discount on donated stock.

Credit the Treasury Stock Donated Account:

¶ 2. For the par value of stock donated to the corporation by the stockholders.

¶ 3. For the premium on donated stock.

¶ 4. *The Balance of the Treasury Stock Donated Account*, before the donated stock is sold, shows the par value of donated stock, and after it is sold, shows the capital resulting from the donation. It may remain in this account, or be transferred to an account with Capital Surplus. The balance of the Treasury Stock Donated account should not be closed into the Surplus account because it is not profit to be withdrawn, but capital supplied for a definite purpose. It is shown on the Balance Sheet as a part of the capital of the corporation in connection with the Capital Stock and Surplus accounts.

SURPLUS ACCOUNT

§ 271. **The Purpose of this Account** is to show the undivided profits; that is, that part of the profit which has not been distributed to stockholders. The par value of the capital stock, issued and outstanding, plus the balance of the Surplus account is the proprietorship of the corporation and should be the same as the difference between the assets and liabilities.

Debit the Surplus Account:

¶ 1. At the close of each fiscal period,* for the net loss if the operations of the business have resulted in a loss.

¶ 2. For that part of the profit which is to be paid as a dividend to the stockholders or set aside for a specific purpose.

¶ 3. For any adjustments during the period which diminish the profits for a preceding period.*

Credit the Surplus Account:

¶ 4. At the close of each fiscal period, for the net profit if the operations of the business have resulted in a profit.

¶ 5. For any adjustments during the period which increase the profits for a preceding period.*

¶ 6. *The Balance of the Surplus Account* shows the undivided profits resulting from the operations of the business. It is shown on the Balance Sheet as a part of the capital of the corporation, being listed in connection with the capital stock, but as a separate amount; if the business has been operated at a loss greater than the balance of the Surplus account, this excess is recorded in a Deficit account.

*The amounts involved in this debit and credit are usually small and result from errors which reduce or increase the income of a previous fiscal period. It is the better practice to record such items in an account with "Adjustment of Errors in Previous Periods," and at the close of the fiscal period, transfer from the Surplus account an amount sufficient to close the adjustment account. This plan avoids recording small amounts in the Surplus account and simplifies auditing.

DIVIDEND PAYABLE ACCOUNT

§ 272. The Purpose of this Account is to show the amount set aside by the board of directors for distribution as a dividend among the stockholders. Dividends are not declared on treasury stock nor on unissued stock. A separate account may be opened with each dividend, if desired, in which case the first one is designated as "Dividend No. 1," the second, as "Dividend No. 2," etc.

Debit the Dividend Payable Account:

¶ 1. For part or all of the dividend paid.

Credit the Dividend Payable Account:

¶ 2. For that part of the profit which is set aside by the board of directors as a dividend to the stockholders.

¶ 3. *The Balance of the Dividend Payable Account* shows the amount of the dividend declared, but not paid to stockholders. As a rule, the account will be in balance because dividend checks will be issued to the stockholders as soon as the dividend is authorized. However, in case the address of a stockholder is not known, or if for some reason the check has not been issued, the account will not be in balance and the amount of the balance will be a liability. If such a liability exists at the close of a fiscal period, it is shown on the Balance Sheet as a current liability.

ORGANIZATION EXPENSE ACCOUNT

§ 273. The Purpose of this Account is to show the cost of organizing the corporation, which includes legal fees, commission on the sale of stock, salaries of stock salesmen, office rent, and other expenses incurred before the corporation is ready to begin the operations for which it is organized. At the time the corporation is ready to begin business, the balance of this account may be regarded as a permanent asset or as a charge against Surplus to be distributed over a number of consecutive fiscal periods.

Debit the Organization Expense Account:

¶ 1. For all expenses incurred in the organization of the corporation.

Credit the Organization Expense Account:

¶ 2. For that part of the organization expense written off at the close of each fiscal period. (Surplus account is debited.)

¶ 4. *The Balance of the Organization Expense Account,* if no part of the organization expense is written off at the close of each fiscal period, shows the asset resulting from the expenditures in connection with the organization of the corporation; if a part is written off each fiscal year, the balance will show the amount remaining as an asset. Organization expense is shown as a separate item on the asset side of the Balance Sheet.

The Commissioner of Internal Revenue has ruled that organization expense is not an operating cost deductible from the income of the corporation; hence, if any part is written off at the close of each fiscal period, it is necessary to debit it to the Surplus account. When organization expense is written off over a number of fiscal periods, the amount to be written off each year and the number of fiscal periods covered by the process are determined by the Board of Directors or management of the corporation.

BONDS PAYABLE ACCOUNT

§ 274. The Purpose of this Account is to show the amount of the indebtedness resulting from bonds issued by the corporation. These bonds are usually secured by a mortgage on real estate or personal property (§ 259).

Debit the Bonds Payable Account:

¶ 1. For the face value of bonds paid by the corporation.

Credit the Bonds Payable Account:

¶ 2. For the face value of bonds issued by the corporation.

¶ 3. *The Balance of the Bonds Payable Account* shows the face value of the bonds owed by the corporation. It is shown on the Balance Sheet as a fixed liability.

When bonds are sold at less than par, the discount is debited to a Discount on Bonds account; when they are sold at more than par, the premium is credited to a Premium on Bonds account. In either case, the account which shows the difference between the par value and the selling price will appear on the Statement of Profit and Loss as an non-operating income or loss.

GOODWILL ACCOUNT

§ 275. The Purpose of this Account is to show the value of goodwill purchased by the corporation. "Goodwill" refers to the difference between the purchase price and the book value of the net assets of a going concern; it is recorded as goodwill only on the books of the buyer. Goodwill is of the same nature as organization expense, and may be regarded as a permanent asset or may be written off over a number of consecutive fiscal periods.

Debit the Goodwill Account:	*Credit the Goodwill Account:*
¶ 1. For the value of the goodwill purchased at the time a going business is taken over.	¶ 2. For that part of the goodwill written off at the close of each fiscal period. (Surplus account is debited.)

¶ 3. *The Balance of the Goodwill Account*, if no part of the goodwill is written off at the close of each fiscal period, shows the cost value of the goodwill purchased by the corporation; if a part is written off each fiscal year, the balance will show the value of the goodwill at the conclusion of the business year. Goodwill is shown as a separate item on the asset side of the Balance Sheet.

Goodwill may be illustrated as follows: C. A. Popp owns and operates a retail shoe store. He wishes to retire from active management, and A. J. Downey, D. F. Ford, Robert McDowell, and C. W. Smith, four of the clerks, decide to incorporate the business and take over the larger part of his interest. The Balance Sheet prepared at this time shows the net assets of the business to be worth $92,500.00, but the incorporators agree to give Mr. Popp $100,000.00 for the business. The $7,500.00 paid Mr. Popp in excess of the actual value of the assets will be recorded on the books of the corporation in the Goodwill account.

QUESTIONS

1. What accounts are needed in connection with the investment in a corporation?
2. What accounts will be debited and credited in the opening entries of a corporation in which the capital stock is $60,000.00 (a) if all stock is subscribed and paid for in cash, and (b) if only $50,000.00 is subscribed and paid for?
3. What are the two methods of recording capital stock? Explain each.
4. If you were keeping books for a corporation and the stockholders donated common stock having a par value of $10,000.00, what accounts would you debit and credit?
5. If the common stock donated in question No. 4 were sold for $8,500.00 cash, what accounts would you debit and credit?
6. What accounts would be debited and credited if a corporation with a capital stock of $100,000.00 sells on the installment plan only $75,000.00 of the stock at the beginning?
7. Why does the law usually forbid a corporation from purchasing its own stock and retaining ownership of it for an indefinite period?
8. What is the difference between the capital and capital stock of a corporation? Give an example.
9. Why is the net profit or loss resulting from the operations of a corporation during a fiscal period, transferred to the Surplus account and not to the Capital Stock account?
10. If the amount shown by the Goodwill account is $10,000.00 and it is desired to close this out over a period of five years, what entry will be required at the close of each year?

Chapter XXVII

BOOKS OF ACCOUNT PECULIAR TO A CORPORATION

The Purpose of this Chapter is to explain and illustrate the books of account required to record the transactions completed during the organization of a corporation and those performed by the officers in connection with the corporate affairs. The books needed to record the transactions completed in the regular operations of a business owned and operated by a corporation are the same as those needed to record such transactions for a like business owned and operated by an individual or by partners. The books of account required to record transactions affecting the corporate affairs consist of the subscription book, subscribers' journal, subscribers' ledger, stock certificate book, stockholders' journal, stockholders' ledger, stock transfer book, and minute book.

§ 276. Subscription Book. The state law governing the organization of corporations usually requires that a certain per cent of the capital be paid in when application is made for the charter. It is necessary, therefore, for the organizers to secure subscriptions to the capital stock and payment for part or all of the stock subscribed. These subscriptions are usually obtained by having the proposed stockholders sign a subscription list, ruled similar to Illustration No. 105. The subscription book is made up by binding the subscription lists; these lists are usually punched to fit a binder. The information given in the subscription book provides a basis for recording the transactions with the subscribers. The signature of a proposed stockholder to the subscription list binds him to pay for the number of shares mentioned in connection with his subscription; hence, the subscription list is the contract between the corporation and the subscriber. For this reason, the subscription list or the subscription book should be kept in a safe place until the subscriptions have been paid in full and the stock issued as per contract.

SUBSCRIPTION LIST

We, the undersigned, hereby subscribe for the number of shares of stock in the corporation known as ..... J. A. Whitney & Co. ....., set opposite our names and agree to pay for same ..... upon demand.

Date		No. of Shares	Par Value	Signature
July	2	150	$15,000.	J. A. Whitney
		150	15,000	L. L. Martin
		20	2,000	P. R. Kent
		17	1,700	C. V. Meyer
		50	5,000	A. F. Ayer
		5	500	B. T. Meaker
		15	1,500	D. E. Brown
		10	1,000	Otis Games
		7	700	Louis Renner
		2	200	C. D. Wilhoit
		14	1,400	James Waite
		15	1,500	L. T. Lloyd

Ill. No. 105, Page of Subscription Book.

§ 277. **The Subscribers' Journal** contains a record of the subscriptions for stock; the information for each entry is obtained from the subscriptions as shown on the subscription lists which compose the subscription book. The ruling should be so arranged that the subscription of a subscriber may be recorded on one horizontal line. Space should be provided for the date, name of the subscriber, his address, number of shares subscribed, par value of the same, and amount columns for common and preferred stock. Each subscriber is debited in the subscribers' journal with the par value of the stock he has purchased; at the end of the month, the Subscribers to Capital Stock account in the general ledger is debited and the Subscriptions to Capital Stock account credited for the total subscriptions.

Illustration No. 106 shows the ruling in skeleton form for a subscribers' journal. If transactions of this nature are not numerous, the entries may be made in the general journal, in which case Subscribers to Capital Stock account will be debited and Subscriptions to Capital Stock account credited for the par value of the subscriptions recorded in each entry.

Date	Name	Address	No. Shares	Par Value	Common	Preferred

Illustration No. 106, Ruling for a Subscribers' Journal.

§ 278. **The Subscribers' Ledger** contains accounts with those subscribers who purchase stock on the deferred payment or installment plan; when a subscriber pays cash for his stock at the time he subscribes for it, no account is needed with him in the subscribers' ledger. The usual ledger ruling is sufficient to record the facts as all the information needed is the debit to a subscriber's account for stock subscribed by him, and the credit to his account for cash received as part payment of the same. Since each debit to accounts in this ledger is included in the total debit to the Subscribers to Capital Stock account in the general ledger, the accounts in the subscribers' ledger are controlled by this account.

§ 279. **The Stock Certificate Book** is a bound or loose-leaf book containing stock certificates, each certificate attached to a stub with space for recording the information written in the certificate. When a subscriber pays for his stock, he is entitled to a certificate showing his interest in the corporation; this interest is indicated by the number of shares and the par value of each. Illustration No. 107 shows a stock certificate filled out ready for delivery to the purchaser, and the attached stub with the necessary information in regard to the certificate. When this certificate is removed from the stub and given to the purchaser, he will retain it as evidence of his interest in the corporation. The information on this stub

Certificate No 17
For Ten (10) Shares
Issued to
James O. Whitman
218-4th Ave, City
Date Aug 3, 19
Transferred from
Date July 2, 19

No Original Certificate	No Original Shares	No of Shares Transferred
14	14	4

Received Certificate No. 17
for Ten Shares
this 3d day of Aug 19
James O. Whitman

SHARES $100.00 EACH

No. 17 Shares 10

This Certifies That James O. Whitman

is the owner of Ten Shares of the Capital Stock of

J. A. Whitney & Co.

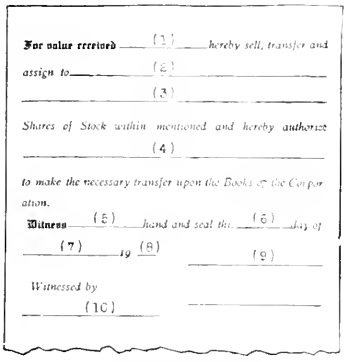
transferable only on the Books of the Corporation in person or by Attorney on surrender of this Certificate.

In Witness Whereof, the duly authorized officers of this Corporation have hereunto subscribed their names and caused the Corporate Seal to be hereto affixed at on this third day of August A. D. 19

J. F. Martin Secretary J. A. Whitney President.

Illustration No. 107, Stock Certificate Attached to Stub.

will be transferred, either direct or through the stockholders' journal, to an account with him in the stockholders' ledger. The stockholder who pays for his subscription on the deferred payment or installment plan receives a receipt for each payment; these receipts are surrendered when the subscription is paid in full and the certificate of stock issued.


For value received (1) hereby sell, transfer and assign to (2) (3) Shares of Stock within mentioned and hereby authorize (4) to make the necessary transfer upon the Books of the Corporation. Witness (5) hand and seal this (6) day of (7) 19 (8) (9) Witnessed by (10)

EXPLANATION. The illustration at the left shows the printed form on the back of the certificate, to be used by the owner for instructions in regard to transfer of title when the stock is sold. Should James O. Whitman sell five shares to Ernest L. Musselman on October 23, the spaces would be filled out as follows: 1, "I"; 2, "Ernest L. Musselman"; 3, "Five (5)"; 4, "J. S. Martin" or some other officer of the corporation authorized to make transfer; 5, "my"; 6, "23d"; 7, "October"; 8, the year; 9, "James O. Whitman"; 10, the signature of a disinterested person who would sign as witness.

Illustration No. 108, Form on Back of Stock Certificate.

§ 280. The Stockholders' Journal contains a record of the stock certificates issued; it is sometimes referred to as a corporation journal. The information for the transactions recorded in this journal is obtained from the stubs of the stock certificates issued. The ruling should be such that all the information in regard to each certificate may be recorded on one horizontal line. The purpose of this journal is to provide a posting medium for the accounts in the stockholders' ledger. If the information in the stockholders' ledger is obtained direct from the stock certificate stub, the stockholders' journal is not needed.

§ 281. The Stockholders' Ledger contains an account with each stockholder. The information recorded in each account shows the number of shares owned by the stockholder, the par value of the stock, and the class of stock, that is, whether common or preferred. The Capital Stock account in the general ledger is a controlling account for the accounts in the stockholders' ledger. The information recorded in the account with a stockholder is posted direct from the stock certificate stub, or from the stockholders' journal. Illustration No. 109 shows an account with a stockholder in the stockholders' ledger.

James O. Whitman

Date		Cer No	No of Shares issued	No of Shares trans	To whom Transferred and other Explanations	Debit	Credit
19- July	2	14	14		Subscribed		1400
Aug.	3	15		4	J. S. Martin	400	
					Balance	1000	
						1400	1400
Aug.	3	17	10		New certificate		1000

Illustration No. 109, Stockholders' Ledger.

§ 282. The Stock Transfer Journal contains a record of the transactions with stockholders which relate to the transfer of stock in a corporation owned by them; the information is obtained from the stub of the stock certificate. If the information given on the stub of the certificate is posted direct to the account with the stockholder in the stockholders' ledger, the stock transfer journal is not

necessary. In several states the law requires that the corporation maintain a stock transfer book; Illustration No. 110 shows the form usually used.

When a stockholder wishes to withdraw his investment in a corporation, he seeks a buyer for his stock and sells his stock to him. The corporation has nothing to do with this transaction except to transfer the ownership of the stock by closing the account in the stockholders' ledger with the former stockholder, and opening an account with the new stockholder. The information in regard to the transaction is given the corporation by the transfer of the certificate; space is provided on the back of the certificate for a record of this transfer. When a certificate is issued to the new stockholder, the former certificate will be surrendered to the corporation, and attached to the stub from which it was detached or filed for future reference. If a stockholder sells only a part of his stock, the old certificate is surrendered, and two new certificates issued, one to each stockholder for the number of shares he owns.

Date	Serial No. of Canceled Certificate	No. of Shares	By Whom Surrendered	To Whom Issued	Serial No. of New Certificate	No. of Shares	No. and Face Value of Stamps				
							2c	4c	$1	Etc.	Val.

Illustration No. 110, One Form of Ruling for a Stock Transfer Book.

§ **283. Minute Book.** The affairs of a corporation are controlled by the stockholders because they are the owners of the business. The stockholders elect from their number a board of directors which, in turn, elects officers to take care of the details of the operations of the business. All business transacted by the stockholders and by the board of directors is recorded in the minute book by the secretary of the corporation. No special ruling is required for the information recorded in the minute book, but the minutes of each meeting should be in consecutive order for ready reference.

QUESTIONS

1. What is the difference between a subscriber and a stockholder?
2. (a) What evidence does a stockholder have that he has an interest in the capital of the corporation? (b) What evidence does a partner have that he has an interest in the capital of a partnership?
3. (a) How will a stockholder determine the value of his investment in a corporation, as evidenced by the certificate of stock which he holds? (b) How will a partner ascertain the value of his interest in a partnership?
4. (a) What is the purpose of the subscription list? (b) In what way is the subscription list connected with the subscription book?
5. What is the connection between the subscribers' journal and the subscribers' ledger?
6. What account in the general ledger controls the accounts in the subscribers' ledger?
7. (a) What is the connection between the stock certificate and the stub? (b) How may canceled certificates be filed? (c) Why would a stockholder wish to have his certificate canceled?
8. (a) What is the connection between the stockholders' journal and the stockholders' ledger? (b) What account in the general ledger controls the accounts in the stockholders' ledger?
9. If a stockholder who owns ten shares of stock sells five shares to one who is not a stockholder in the corporation, what is the method of procedure to show the transaction properly recorded on the books of the corporation?
10. Why should the president, or presiding officer, and the secretary both sign the minutes of each meeting of the board of directors as recorded in the minute book?

Chapter XXVIII

OPENING ENTRIES FOR A CORPORATION

The Purpose of this Chapter is to explain the opening entries for a corporation. The method of selling the capital stock of the corporation determines the journal entries necessary to record the investment; these entries are discussed in this chapter under the following titles: (1) authorized capital stock sold for cash or cash and other assets; (2) part of authorized capital stock sold for cash or cash and other assets; (3) part or all of the authorized capital stock sold for the purpose of continuing the operations of a going business; and (4) stock sold on the installment plan.

§ 284. Authorized Capital Stock Sold at Time of Organization. When all stock is sold at the time the corporation is organized, Cash or Cash and some other asset accounts are debited and the Capital Stock account credited for the amount of the capital stock which the corporation is authorized to issue; if the value of the assets received is not equivalent to the par value of the stock issued, the difference is debited to an account with Discount on Capital Stock or credited to a Premium on Capital Stock account.

If the charter granted the Central Plumbing Company authorizes the issuing of $50,000.00 common stock and all of this is sold for cash, the entry in journal form will be as follows:

	Cash		50,000 00	
	Capital Stock			50,000 00
	Cash received for authorized capital stock issued.			

When this entry is posted, the authorized capital stock will appear on the credit side of the Capital Stock account. The fact that no unissued capital stock is recorded in the ledger indicates to each stockholder that the $50,000.00 is the full amount of stock which the corporation is authorized to issue.

If the charter of the Central Plumbing Company authorizes the incorporators to issue $25,000.00 common stock and $25,000.00 preferred stock and cash has been received in payment for all the stock, the entry in journal form will be as follows:

	Cash		50,000 00	
	Capital Stock, Common			25 000 00
	Capital Stock, Preferred			25,000 00
	Cash received for authorized capital stock issued.			

When this entry is posted, the ledger will show the same facts as when the entry first illustrated was posted, except each class of authorized capital stock will be recorded in a separate account.

If, at the time the Central Plumbing Company was organized, it was agreed to issue $5,000.00 of stock to a subscriber in exchange for land which he owns and cash was received for the remainder of the capital stock, the entry in journal form will be as follows:

	Cash		45,000 00	
	Land		5,000 00	
	Capital Stock			50,000 00
	Cash and land received for authorized capital stock issued.			

When this entry is posted, the ledger will show the same facts as when the first entry was posted, except the assets received will be shown in two accounts, one with Cash and the other with

Land. If the same conditions existed and the stock were equally divided between the common and preferred as in the second entry, the entry would be the same as the above, except that there would be two credits to show the two classes of stock.

§ 285. Part of Authorized Capital Stock Sold at Time of Organization. When only a part of the authorized capital stock is sold at the time the corporation is organized, the authorized capital stock should be recorded; otherwise its value will not be shown in the ledger and the stockholders will have no means of knowing the par value of the capital stock which the corporation can issue, without referring to the charter. This is usually recorded by an entry in which the Unissued Capital Stock account is debited and the Capital Stock account credited for the par value of the capital stock which the corporation is authorized to issue. If the charter authorizes the issuing of both common and preferred stock, the par value of each will be shown in a separate Capital Stock account and the par value of the authorized capital stock will also be debited to separate Unissued Capital Stock accounts. When the authorized capital stock is recorded in the ledger, the stockholders will know the authorized capital stock and the par value of that which is not issued, without referring to the charter.

If the Citizens' Motor Car Company is organized with the authority to issue $100,000.00 common stock and only $75,000.00 is sold for cash at the time of organization, the entries to record the authorized capital stock and the stock sold will appear in journal form as follows:

	Unissued Capital Stock	100,000 00		
	Capital Stock		100,000 00	
	Authorized capital stock of Citizens' Motor Car Co.			
	Cash	75,000 00		
	Unissued Capital Stock		75,000 00	
	Cash received for 750 shares of stock issued.			

When these entries are posted, the par value of the authorized capital stock and of the stock issued will be recorded in the ledger. Each stockholder will know from the Balance Sheet that the corporation has the authority to sell and issue additional stock to the value of $25,000.00.

If the incorporators of the Citizens' Motor Car Company are authorized to issue both common and preferred stock in equal amounts and $75,000.00 cash is received for $40,000.00 preferred and $35,000.00 common stock at the time of organization, the entries in journal form will appear as follows:

	Unissued Capital Stock, Common	50,000 00		
	Unissued Capital Stock, Preferred	50,000 00		
	Capital Stock, Common		50,000 00	
	Capital Stock, Preferred		50,000 00	
	Authorized capital stock of Citizens' Motor Car Co.			
	Cash	75,000 00		
	Unissued Capital Stock, Common		35,000 00	
	Unissued Capital Stock, Preferred		40,000 00	
	Cash received for 350 shares of common and 400 shares of preferred stock issued.			

When these entries are posted, the ledger will show $50,000.00 common stock authorized and $35,000.00 issued, and $50,000.00 preferred stock authorized and $40,000.00 issued.

If, at the time of the organization of the Citizens' Motor Car Company, it is agreed to issue $5,000.00 of common stock and $5,000.00 of preferred stock

to one of the subscribers for land which he owns and cash is received for $30,000.00 common stock and $35,000.00 preferred stock, the entries in journal form will appear as follows:

	Unissued Capital Stock, Common	50,000 00	
	Unissued Capital Stock, Preferred	50,000 00	
	Capital Stock, Common		50,000 00
	Capital Stock, Preferred		50,000 00
	Authorized capital stock of Citizens' Motor Car Co.		
	Cash	65,000 00	
	Land	10,000 00	
	Unissued Capital Stock, Common		35,000 00
	Unissued Capital Stock, Preferred		40,000 00
	Cash and land received for 350 shares of common and 400 shares of preferred stock issued.		

When these entries are posted, the ledger will show the same facts as in the two preceding entries, except that $10,000.00 of the assets received will be recorded in the Land account and $65,000.00 in the Cash account.

§ 286. Corporation Organized to Continue a Going Business. A going business is one which is in operation. A corporation organized to continue such a business will purchase the assets and assume the liabilities of the business. It is customary to close the accounts in the ledger of a going business before making the opening entries for the corporation. The entries required are usually made in the following order: (1) to close the accounts in the ledger of the concern which is being taken over by the corporation; (2) to record the authorized capital stock of the corporation; (3) to record the assets received in payment for the stock issued; and (4) to record the liabilities assumed by the corporation.

The entries required in connection with the purchase of a going business by a corporation are illustrated in connection with the following: J. A. Smith owns and operates a retail shoe business, but wishes to retire from active management. R. W. Wiley, C. U. Moon, J. H. Patterson, and P. A. Carlson, four of his employees, decide to purchase the business from Mr. Smith and continue its operation as a corporation; Mr. Smith agrees to accept stock in the corporation for his interest in the business. Each of the other four incorporators agrees to purchase one hundred shares at par. The necessary capital is subscribed, application made for a charter, and the charter granted on January 1, 192... Stock is issued to Mr. Smith for his interest and, on receipt of cash in payment, to the other four incorporators. The capital stock of the corporation is $50,000.00 consisting of one thousand shares, par value $50.00 each; the name of the corporation is the People's Shoe Company. The post-closing Trial Balance of the business owned and operated by J. A. Smith, on December 31 is as follows:

J. A. SMITH

Post-closing Trial Balance, December 31, 192..

	Cash	13,500.00	
	Accounts Receivable	1,750.00	
	Reserve for Doubtful Accounts		27.50
	Office Equipment	250.00	
	Reserve for Dep. of Office Equipment		25.00
	Store Fixtures	1,500.00	
	Reserve for Dep. of Store Fixtures		300.00
	Notes Payable		3,300.00
	Accounts Payable		12,450.00
	J. A. Smith, Capital		8,500.00
	Mdse. Inventory, December 31, 192	7,602.50	
		24,602.50	24,602.50

The entries in journal form to close the accounts on the ledger of J. A. Smith will appear as follows:

People's Shoe Company	24,602 50	
Cash		13,500 00
Accounts Receivable		1,750 00
Office Equipment		250 00
Store Fixtures		1,500 00
Mdse. Inventory, Dec. 31		7,602 50
To record the sale of the assets of the business to the People's Shoe Company.		
Reserve for Doubtful Accounts	27 50	
Res. for Dep. of Office Equipment.	25 00	
Res. for Dep. of Store Fixtures	300 00	
Notes Payable	3,300 00	
Accounts Payable	12,450 00	
People's Shoe Company		16,102 50
To record the transfer of the reserves and liabilities of the business to the People's Shoe Company.		
Stock, People's Shoe Company	8,500 00	
People's Shoe Company		8,500 00
To record the receipt of capital stock from the People's Shoe Company in payment of amount due from them.		
J. A. Smith, Capital	8,500 00	
Stock, People's Shoe Company		8,500 00
To record the acceptance by J. A. Smith of 170 shares of the stock of the People's Shoe Company in payment for his interest in the business.		

When these entries are posted, each of the asset accounts will be closed by an entry on the credit side, and each of the liability and reserve accounts and the proprietorship account, by an entry on the debit side. The books of J. A. Smith are thus completely closed.

The entries in journal form to open the books will appear as follows:

Unissued Capital Stock	50,000 00	
Capital Stock		50,000 00
To record the authorized capital stock of the People's Shoe Company.		
Cash	13,500 00	
Accounts Receivable	1,750 00	
Office Equipment	250 00	
Store Fixtures	1,500 00	
Mdse. Inventory, Jan. 1	7,602 50	
J. A. Smith, Vendor		24,602 50
To record the purchase of the assets of J. A. Smith.		
J. A. Smith, Vendor	16,102 50	
Reserve for Doubtful Accounts		27 50
Res. for Dep. of Office Equipment		25 00
Res. for Dep. of Store Fixtures		300 00
Notes Payable		3,300 00
Accounts Payable		12,450 00
To record the reserves taken over and the liabilities assumed from J. A. Smith.		
J. A. Smith, Vendor	8,500 00	
Unissued Capital Stock		8,500 00
To record the issue of 170 shares of stock to J. A. Smith in payment for his business.		
Cash	20,000 00	
Unissued Capital Stock		20,000 00
To record the issue of 400 shares of stock upon receipt of cash in payment, to R. W. Wiley, C. U. Moon, J. H. Patterson, and P. A. Carlson, each 100 shares.		

When these entries are posted, the authorized capital stock will be recorded on the books of the corporation as a credit to the Capital Stock account; the unissued capital stock will be shown by the debit balance of the Unissued Capital Stock account; the assets, liabilities, and reserves taken over from J. A. Smith will be recorded in the proper accounts; and the account with J. A. Smith, Vendor, which shows in summary form the assets purchased, the liabilities assumed, the reserves taken over, and the stock issued in payment for the net assets, will be in balance. The books of the corporation are now ready for the recording of current transactions.

§ 287. Capital Stock Sold on the Installment Plan. When all the capital is not needed at the time the corporation is formed, it is customary to allow the subscribers to pay for the stock subscribed, in installments. This plan is especially applicable to corporations organized for the purpose of manufacturing a product which will require the construction of a new factory. Much time will elapse between the organization of the corporation and the completion of the factory, and the installments can be made payable so as to be available as needed. The deferred payment plan will permit many to subscribe for the stock who otherwise would be prohibited from doing so because they might not have sufficient cash to pay for one or more shares.

If the Central Tire Company, a corporation organized for the purpose of manufacturing automobile tires, with a capital stock of $250,000.00, par value $100.00 per share, sells $200,000.00 of its stock for cash and $20,000.00 to subscribers who agree to pay one fourth of the subscription in cash and the balance in three equal installments, the opening entries in journal form would be as follows:

Unissued Capital Stock		250,000 00	
Capital Stock			250,000 00
To record the authorized capital stock.			
Cash		200,000 00	
Unissued Capital Stock			200,000 00
To record the sale and issue of stock for cash.			
Subscribers to Capital Stock		20,000 00	
Subscriptions to Capital Stock			20,000 00
To record subscriptions to capital stock.			
Cash		5,000 00	
Subscribers to Capital Stock			5,000 00
To record cash received from subscribers in payment for the first installment of 25 per cent.			

When these entries are posted, the authorized capital stock will be shown in the Capital Stock account, the unissued stock in the Unissued Capital Stock account, the balance due from subscribers in the Subscribers to Capital Stock account, the liability of the corporation to issue stock to subscribers in exchange for their promise to pay for the stock will be shown by the Subscriptions to Capital Stock account, and the cash received in payment for the cash sale of stock and for the first installment on stock subscribed will be recorded.

When cash is received from a subscriber for all of his subscription, he is entitled to a certificate of stock; when cash has been received from all the subscribers in payment for their subscriptions, certificates of stock will have been issued for all of the capital stock sold. Since each subscriber will want a certificate at the time he pays his subscription in full, and it is hardly possible that all will pay at the same time, it is customary to take the value of the stock issued to each subscriber out of the Subscriptions to Capital Stock account and transfer it to the Unissued Capital Stock account when the certificate of stock is issued. This transfer is made by debiting the Subscriptions to Capital Stock account and crediting the Unissued Capital Stock account.

If John Smith, who has subscribed for ten shares of the Central Tire Company's stock, has paid the last installment on his subscription and a certificate of stock has been issued, the entries in journal form will be as shown at the top of page 270.

Cash	250 00		
Subscribers to Capital Stock			250 00
To record cash received from John Smith in payment for the last installment for stock subscribed.			
Subscriptions to Capital Stock	1,000 00		
Unissued Capital Stock			1,000 00
Issued a certificate for ten shares of stock to John Smith.			

When these entries are posted, the Subscribers to Capital Stock account will show a debit balance of $250.00 less, the Unissued Capital Stock account, a debit balance of $1,000.00 less, and the Subscriptions to Capital Stock account, a credit balance of $1,000.00 less. As the subscriptions are paid in full and the stock issued, the entries are made in the same form as the entries above; when all the subscriptions have been paid and the stock issued, the Subscribers to Capital Stock account and the Subscriptions to Capital Stock account will be in balance, the Capital Stock account will show the par value of the stock authorized, and the Unissued Capital Stock account will show the unissued stock, the difference between the last two accounts being the par value of the stock issued and outstanding.

If a Balance Sheet is prepared before all the subscribers have paid their subscriptions in full, the capital accounts will be shown thereon as in the illustration below, assuming that the surplus is $13,500.00:

PROPRIETORSHIP:			
Authorized Capital Stock.....	250,000.00		
Less Unissued Capital Stock.....	47,000.00		
Capital Stock Issued and Outstanding.....	203,000.00		
Subscriptions to Capital Stock.....	17,000.00	220,000 00	
Surplus.....		13,500 00	
Total Proprietorship.....			233,500 00

In the above illustration, $200,000.00 of the authorized capital stock of $250.000,00 has been sold for cash and issued. Of the remaining $50,000.00 of stock, $20,000.00 has been subscribed, and $5,000.00, the first installment of 25 per cent, has been received from subscribers to apply on their subscriptions; in addition, $2,250.00 has been received from some of the subscribers who subscribed for thirty shares and paid in $750.00, the first installment, and stock amounting to $3,000.00 has been issued to them. The remaining subscribers owe $12,750.00 on stock which has not yet been issued; this amount, which does not appear among the proprietorship accounts, is shown on the asset side of the Balance Sheet as a current asset. The unissued stock is $47,000.00, of which $17,000.00 has been subscribed. When the subscribers pay the $12,750.00 due on their subscriptions, and the total stock subscribed by them ($17,000.00) has been issued, the Subscribers to Capital Stock account and the Subscriptions to Capital Stock account will be in balance, the Unissued Capital Stock account will show the unissued stock ($30,000.00), and the Capital Stock account, the authorized capital stock of the corporation.

Exercise No. 92, Opening Entry.

A charter was granted the Acme Manufacturing Co. on January 1, 192.., with an authorized capital stock of $500,000.00, consisting of 5,000 shares, par value $100.00 per share. Cash has been received for all the stock at its par value.

Make, in journal form, the entries necessary to record the capital stock and the issue of stock to subscribers.

Exercise No. 93, Opening Entry.

H. O. Warren and C. W. Warren are partners in a manufacturing business under the name of Warren Bros. They decide to incorporate the business, and J. J. Bowser, D. D. Marks, and A. L. Miller have signed the application for a charter with them. The corporation is to have an authorized capital stock of $500,000.00 of which $400,000.00 is to be common stock, and $100,000.00 preferred

stock (par value, $100.00 per share). The corporation is to take over the assets and assume the liabilities of Warren Bros. at book value, and to issue to H. O. Warren and C. W. Warren each 850 shares of common stock, and 250 shares of preferred stock in payment for their business. Bowser contributes manufacturing supplies valued at $75,000.00, and receives payment in common stock at par. Marks subscribes for $50,000.00 of common stock and pays cash at par. Miller subscribes for $50,000.00 of preferred stock, for which he pays cash at par.

The Balance Sheet of Warren Bros. on December 5, 192.., the date on which the charter is granted, is as follows:

WARREN BROS.
Balance Sheet, December 5, 192

Assets		Liabilities	
Cash	$ 8,500.00	Accounts Payable	$25,500.00
Accounts Receivable	41,500.00	Notes Payable	45,000.00
Inventory	60,000.00	Mortgages Payable	49,500.00
Office Equipment	14,000.00		
Delivery Equipment	18,500.00	Total Liabilities	$120,000.00
Machinery	102,500.00	**Proprietorship**	
Buildings	45,000.00	H. O. Warren	$100,000.00
Land	30,000.00	C. W. Warren	100,000.00
		Total Proprietorship	$200,000.00
Total Assets	$320,000.00	Total Liabilities and Prop.	$320,000.00

(1) Make the entries in journal form to close the books of Warren Bros.
(2) Make the entries in journal form to open the books of the corporation.

Exercise No. 94, Opening Entry.

Albert C. Bacon, who has been conducting a retail grocery store, decides to incorporate and operate under the firm name of The Cash Grocery Company. H. M. Barnes, E. M. Ward, C. A. Peters, A. S. Weller, and A. E. Harmon join with him in the application for the charter. The corporation is to have an authorized capital stock of $10,000.00, consisting of 1,000 shares, par value $10.00. Barnes subscribes for 100 shares, Ward for 75 shares, Peters for 25 shares, Weller for 50 shares and Harmon for 100 shares, payment to be made when the charter has been granted. Bacon is to receive $6,000.00 for his interest in the business, payable $1,000.00 cash, and the balance in stock at par.

On January 1, 192.., when the charter is granted, the Balance Sheet made from Bacon's ledger appears as follows:

A. C. BACON
Balance Sheet, January 1, 192

Assets		Liabilities	
Cash	$1,735.50	Notes Payable	$2,245.55
Notes Receivable	215.46	Accounts Payable	2,977.49
Accounts Receivable	1,946.58		
Mdse. Inventory	6,135.50	Total Liabilities	$5,223.04
Furniture and Fixtures	690.00	**Proprietorship**	
		A. C. Bacon	5,500.00
Total Assets	$10,723.04	Total Liabilities and Prop.	$10,723.04

(1) Make the entries in journal form to close the books of A. C. Bacon.
(2) Make the entries in journal form to open the books of the corporation.

QUESTIONS

1. Why should the authorized capital stock be shown on the Balance Sheet?
2. How should this be recorded when only a part of the authorized capital has been sold and issued?
3. What account shows the investment in a corporation before the subscriptions by subscribers have been paid in full, and the stock issued to them?
4. If the authorized capital stock is $100,000.00, and $90,000.00 has been subscribed, of which $45,000.00 has been paid and stock issued, and $45,000.00 only half paid for, what accounts in the ledger will show these facts?
5. If the stockholders vote to reduce the capital stock of the corporation, how will this reduction be effected?
6. When more than the book value is paid for assets purchased by a corporation at the beginning, what account shows the difference between the purchase price and the book value of these assets?
7. If the corporation offers one share of common stock, par value $100.00, free with each share of preferred stock, par value $100.00, purchased and paid for in cash, how will the sale of 100 shares of preferred stock be recorded, assuming that cash is received for the stock at the time it is sold?
8. Why would a corporation give common stock free with preferred stock purchased?
9. If a corporation (authorized capital stock issued, $200,000.00) secures an amendment to its charter permitting it to double the capital stock, and it is decided to sell three-fourths of this new issue, what entry will be required to record this stock, provided it is sold one-half cash, balance payable within 90 days? If the new issue were equally divided between preferred and common stock, what effect would this have on the entry?
10. In what respect does the opening entry for a corporation resemble the opening entry for a business operated by an individual or by partners?

Chapter XXIX

CONSTRUCTION AND INTERPRETATION OF SPECIFIC ACCOUNTS

The Purpose of this Chapter is to explain accounts with selling cost, branch store, agents, controlling accounts, and notes receivable discounted. Some of these accounts have been discussed in previous chapters, but the information is repeated briefly in this chapter for the benefit of the student who is working this division independently of those which precede it.

§ 288. **Selling Expense** refers to the cost of selling the merchandise or service in which the business deals. As explained in Chapter XVI, all the cost of selling may be recorded in one account or the transactions affecting selling cost may be analyzed at the time they occur and recorded in separate accounts. Selling cost may be divided into (a) advertising, (b) salaries in the selling department, (c) salaries and expenses of traveling salesmen, (d) warehouse expense, and (e) delivery expense.

If desired, selling expenses may be classified so as to apply to departments, each of which is in charge of and individually responsible for the operations of that particular department; this plan is desirable when the operations of the business are extensive and the management must depend on reports in order to exercise the proper control.

The classification of the accounts discussed in this chapter applies more to the nature of the expenses than to the departments, the purpose being to show the student that selling expenses are of different natures and that the accounts set up to record these should be grouped so as to show the total cost of each. The management of a business should know the selling cost applicable to advertising, salaries of clerks in the store, expenses of salesmen on the road, cost of maintaining the shipping room or warehouse, cost of delivering goods sold, etc.

§ 289. **Advertising Cost** refers to the expense incurred in connection with advertising in newspapers and magazines, circulars, catalogs, novelties, etc. Two accounts should be kept to show these expenses: one with Advertising Expense and the other with Advertising Material.

ADVERTISING EXPENSE ACCOUNT

§ 290. **The Purpose of this Account** is to show the cost of advertising. This includes (a) salaries, (b) newspaper and magazine space, and (c) catalogs, circulars, and advertising novelties distributed; the entry for the last cost is made at the close of the fiscal period after the value of the material on hand has been ascertained by an inventory.

Debit the Advertising Expense Account:

¶ 1. For the cost of advertising service.

¶ 2. At the close of the fiscal period, for the cost of advertising material used during the period.

Credit the Advertising Expense Account:

¶ 3. For any adjustment which reduces the advertising cost as shown by the debit side of this account.

¶ 4. *The Balance of the Advertising Expense Account* shows the net cost of advertising; it is shown on the Statement of Profit and Loss as one of the selling expenses.

ADVERTISING MATERIAL ACCOUNT

§ **291. The Purpose of this Account** is to show the cost of material purchased for use in advertising; this includes catalogs, circulars, stationery for the advertising department, advertising novelties, etc. The nature of the account is the same as that of Office Supplies.

Debit the Advertising Material Account:

¶ 1. For the cost of advertising material purchased.

Credit the Advertising Material Account:

¶ 2. At the close of the fiscal period, for the cost of advertising material used.

¶ 3. *The Balance of the Advertising Material Account* during the fiscal period shows the net cost of advertising material purchased; the balance of this account after the value of the material used has been entered at the close of the fiscal period, shows the value of advertising material on hand. This latter balance is shown on the Balance Sheet (Illustration No. 130) as a deferred charge.

SALARIES IN SELLING DEPARTMENT ACCOUNT

§ **292. The Purpose of this Account** is to show the amount paid to employees (except traveling salesmen) in the selling department. In a mercantile business this includes the salaries of clerks who are engaged in selling merchandise and of those who supervise the work of these clerks.

Debit the Salaries in Selling Department Account:

¶ 1. For the salaries of all sales clerks except those on the road.

Credit the Salaries in Selling Department Account:

¶ 2. For any adjustments which reduce the cost of salaries in the selling department.

¶ 3. *The Balance of the Salaries in Selling Department Account* shows the amount paid clerks and salesmen; it is shown on the Statement of Profit and Loss (Illustration No. 131) as one of the selling costs.

TRAVELING EXPENSE ACCOUNT

§ **293. The Purpose of this Account** is to show the cost of selling merchandise through traveling salesmen; this includes salaries, transportation, hotel accommodation, and other authorized expenditures. Salaries include not only the amount assigned each salesman as his drawing account, but also commission paid to him in excess of his drawing account.

Debit the Traveling Expense Account:

¶ 1. For the salaries of traveling salesmen.

¶ 2. For all amounts paid as expenses for salesmen on the road, as reported by each salesman.

Credit the Traveling Expense Account:

¶ 3. For any adjustments which reduce the cost shown by the debit side.

¶ 4. *The Balance of the Traveling Expense Account* shows the cost of selling merchandise through traveling salesmen; it is shown as one of the selling costs on the Statement of Profit and Loss (Illustration No. 131.)

NOTE. An account is kept with each traveling salesman; this is debited with the cash advanced to him and credited with his expenses as reported weekly or monthly.

§ 294. Warehouse Expense refers to the cost of preparing merchandise for delivery after it is sold, and includes wages of employees in the warehouse or shipping room and material used in packing the merchandise. Warehouse expense is one of the operating costs resulting from the sale of merchandise and is shown on the Statement of Profit and Loss, either as a selling expense or as a separate expense item. When a record of the sales by departments is maintained, the total warehouse expense is distributed to the departments in the same proportion as the sales for the department are to the total sales.

Since material is needed in connection with the shipment of merchandise sold, two accounts are necessary to show the cost of maintaining the warehouse, one with warehouse material and the other with warehouse expense; where a separate warehouse is not maintained for receiving and shipping, the title "Shipping Room" may be substituted for "Warehouse."

If it is desired to show all costs in connection with the purchase of merchandise separate from the cost of selling or costs which result from selling, and the warehouse is used for receiving goods purchased and packing goods sold, it will be necessary to transfer a part of the warehouse expense to the proper account in the "cost of purchases" group at the end of each month or fiscal period. The amount transferred will depend on the volume of the purchases and sales or the average cost incident to each, based on the nature of the work required in receiving and shipping goods.

WAREHOUSE MATERIAL ACCOUNT

§ 295. The Purpose of this Account is to show the cost of cases, wrapping paper, twine, nails, and other supplies purchased for use in packing merchandise after it has been sold. The nature of this account is the same as that of Advertising Material, and the debits and credits are the same except that they are applicable to material purchased for use in the warehouse. The balance, after the adjusting entry for the value of the material used during the period has been made at the close of the fiscal period, will show the value of the material on hand; this is shown as a deferred charge on the Balance Sheet (Illustration No. 130).

WAREHOUSE EXPENSE ACCOUNT

§ 296. The Purpose of this Account is to show the cost of maintaining the warehouse or shipping room; this includes rent, wages of employees and cost of material used during the period; the entry for the latter cost is made at the close of the fiscal period after the value of the material has been ascertained through an inventory.

Debit the Warehouse Expense Account:

¶ 1. For the wages of employees and other expenses in connection with maintaining the warehouse at the time the expense is incurred.

¶ 2. For the value of warehouse material consumed during the period, at the close of the fiscal period.

Credit the Warehouse Expense Account:

¶ 3. For any adjustments which reduce the cost shown by the debit side.

¶ 4. *The Balance of the Warehouse Expense Account* shows the cost of maintaining the warehouse; it is shown on the Statement of Profit and Loss either in the selling group (Illustration No. 131) or as a separate item.

§ 297. Delivery Expense is the cost of delivering merchandise after it has been sold, to both local and out-of-town customers. Delivery cost includes the wages of chauffeurs and drivers, gasoline and oil for automobiles, feed for horses, the cost of maintaining the delivery equipment (such as taxes, license, repairs, depreciation, and insurance), prepaid freight, express, or parcel post where the contract is to deliver the goods, and any other expenses in connection with making delivery after sale. The cost of delivery is usually recorded in two accounts: one with Delivery Expense and the other with Freight Out.

DELIVERY EXPENSE ACCOUNT

§ 298. **The Purpose of this Account** is to show the cost of delivering merchandise to local customers and to the freight depot for out-of-town customers, whether the business owns its own delivery equipment or has its merchandise delivered by contract.

Debit the Delivery Expense Account:

¶ 1. For amounts paid for delivery of merchandise sold.

¶ 2. For the cost of maintaining a delivery department, which includes (a) wages, gasoline, and feed, (b) repairs, insurance, taxes, and depreciation on delivery equipment.

Credit the Delivery Expense Account:

¶ 3. For adjustments which decrease the delivery cost as shown by the debit side of this account.

¶ 4. *The Balance of the Delivery Expense Account* shows the cost of delivering merchandise; it is shown as one of the selling expenses on the Statement of Profit and Loss (Illustration No. 131).

"Free on board" (abbreviated "f. o. b.") is a term frequently used in connection with the sale and shipment of merchandise. If the seller is to deliver the merchandise to the buyer, he indicates this by stating in his quotation of price "f. o. b. your freight station;" if the seller is not to deliver the merchandise to the buyer, this is indicated by stating in the quotation "f. o. b. our freight station." The meaning of the first expression is that the seller prepays the freight to the freight station at which the buyer will receive it, or that he allows the buyer to pay the freight and deduct the amount from the invoice. The meaning of the second expression is that the seller agrees to deliver the merchandise to the freight station of the railroad which is to transport it, and the buyer will pay the freight when the transportation company delivers it, or that he (the seller) will prepay the freight and add the amount to the invoice rendered the buyer.

FREIGHT OUT ACCOUNT

§ 299. **The Purpose of this Account** is to show the delivery cost of merchandise sold f. o. b. the freight station of a customer; this includes the freight paid by the seller or the freight paid by the customer and deducted by him from the amount of the sales invoice. The term "freight" includes transportation cost whether the merchandise is shipped by railroad, steamship, express, or parcel post. The term "out" or "in" is written after "freight" to indicate whether the charge is applicable to merchandise sold or merchandise bought. If it is applicable to merchandise bought (Freight In), the balance of the account is a purchase cost; if it is applicable to merchandise sold (Freight Out), it is a selling cost.

Debit the Freight Out Account:

¶ 1. For the transportation cost of merchandise sold f. o. b. the customer's freight station, and transportation cost of merchandise returned by a customer.

Credit the Freight Out Account:

¶ 2. For any adjustments which reduce the delivery cost resulting from paying freight on merchandise sold as shown by the debit side.

¶ 3. *The Balance of the Freight Out Account* shows the transportation cost of merchandise sold f. o. b. the customer's freight station. It is shown as one of the selling expenses on the Statement of Profit and Loss (Illustration No. 131).

NOTE. If desired, the Freight Out account may be credited with the transportation cost on the merchandise sold f. o. b. the customer's freight station at the time the sale is recorded and debited with the transportation cost when it is paid. This plan is desirable when a delivered price is made on all or the greater part of the merchandise sold, because the selling price includes transportation and, if this is not separated from the sales price, the balance of the Sales account will not show the true sales. When this plan is followed, the Freight Out account will be in balance after all freight bills have been paid; if not in balance, it will show the amount of transportation which is unpaid.

§ 300. Agencies. An agent is one who acts in a legal capacity for another, either in the performance of a contract or the sale of merchandise. With reference to the sale of merchandise, there are two classes of agents: one who carries in stock at all times merchandise belonging to a principal, and the other, one who carries in stock merchandise belonging to various principals; the latter class includes the consignee in a commission business where merchandise is received from various owners and sold on their account and risk. When the agent represents a principal from year to year and carries his goods in stock for sale at a price fixed by the principal and on a commission basis, it is necessary for the agent to keep an account with each principal, also to report to the principal according to the terms of the agreement and remit for the merchandise sold. The commission merchant usually sells all the goods before sending an account sales; the agent makes periodical reports of merchandise sold without waiting for all the goods to be sold.

The rule of agency does not apply where the business has the exclusive sale of merchandise of a certain variety but pays for it. Thus, if a druggist has the exclusive sale of a certain kind of medicine, but buys and pays for this medicine the same as other merchandise, he is not an agent and his record of the transactions with the manufacturer of the medicine will be the same as that with any other trade creditor.

AGENT'S ACCOUNT WITH PRINCIPAL

§ 301. The Purpose of this Account is to show a record of all the transactions which the agent has in connection with merchandise belonging to the principal. The account is of the same nature as the Consignment In account except that the agent makes reports periodically according to agreement and continues to sell the same merchandise for the same principal from year to year.

The Agent Debits the Principal:

¶ 1. For the transportation cost paid by the agent.

¶ 2. For cash (or other assets) given the principal in payment for the amount due him for his merchandise sold.

¶ 3. For the agent's commission on sales of merchandise belonging to the principal.

The Agent Credits the Principal:

¶ 4. For the value of merchandise received from the principal, as per invoice rendered; the Purchases account is debited.

¶ 5. *The Balance of the Agent's Account with the Principal* shows the amount due the principal from the agent; it is not all a liability of the agent because he is required to pay only for the merchandise sold. At the close of a fiscal period, the value of the merchandise in stock belonging to the principal should be removed from the ledger by an entry in which this account is debited and Purchases credited; after the ledger is closed, the amount is recorded in the ledger again by an entry in which Purchases is debited and this account credited.

NOTE. It will be advisable for the agent to maintain a going inventory of the merchandise which he has in stock belonging to the principal. A card ruled for purchases and sales should be provided for each class of merchandise; the information in regard to purchases is obtained from the invoices rendered by the principal, and that in regard to sales, from the sales invoices rendered by the agent to his customers. When a report is to be prepared for the principal, a physical inventory is taken and the record on the card compared with this.

PRINCIPAL'S ACCOUNT WITH AGENT

§ 302. The Purpose of this Account is to show the transactions which the principal has with his agent, in order that he may verify the reports of the

agent. The debits and credits below are applicable when the agent carries in stock merchandise of the principal and reports the sales of this merchandise at specified times as per agreement.

The Principal Debits the Agent:

¶ 1. For the value of merchandise shipped to the agent as per sales invoice rendered; the Sales account is credited.

The Principal Credits the Agent:

¶ 2. For cash (or other assets) received from the agent on account of sales, for transportation and other costs paid by him, and for his commission on sales.

¶ 3. *The Balance of the Principal's Account with the Agent* shows the amount due from the agent for merchandise in his possession; it is not all an asset because the agent is required to pay only for the merchandise he has sold.

It is necessary for the principal to adjust the account with the agent at the close of the fiscal period because the merchandise in the hands of the agent has not been sold to the agent. The method of adjustment is to debit Sales and credit the agent for the balance of the account. This takes out of the Sales account the value of the merchandise credited to it, which has not been sold, and removes the agent's account from the ledger. The value of the merchandise in the hands of the agent is shown at cost on the Balance Sheet of the principal; the value of this merchandise is not shown on the Balance Sheet of the agent because he has not purchased it.

§ **303. The Account** which the agent keeps with the principal and the account which the principal keeps with the agent should agree at the time the periodical report is submitted by the agent. The adjustments necessary for the principal or agent to make at the close of a fiscal period do not affect the account, hence either can make these adjustments without notifying the other.

§ **304. Branch Store Accounting.** A branch store, as the name indicates, is a store operated at a place different from the main store, either in the same city or in another city. Branches are maintained by wholesale establishments for the retail distribution of certain classes of merchandise and to enable the main store to keep in closer touch with the trade in the community which it serves. There are many other reasons for the establishment of branch stores, but these two will serve the purpose in the present discussion.

When a branch store is established, it is necessary for the general office (usually located at the main store) to keep in touch with the activities of the branch through its records. There are two methods in general use:

1. *No accounting records are kept by the branch store* except memoranda of the various transactions completed. The books of original entry and the ledger for recording the branch store transactions are maintained at the general office. When this plan is followed, all business forms and vouchers which represent transactions completed by the branch store are forwarded to the main store for recording. As stated at the beginning, the branch store retains memoranda of the transactions for auditing purposes.

2. *The branch store maintains a complete accounting system,* including books of original entry and a ledger or ledgers. When this plan is followed, the branch store records all transactions which it completes and maintains in the general ledger an account with the general office or main store, which takes the place of the proprietorship accounts. On the ledger of the main store or general office, there will be a similar controlling account for each branch. Monthly reports are submitted by the branch so that the controlling account on the main store ledger may be audited. The title of the controlling account for the branch store in the general ledger of the main store may be "Branch Store," or any name applied

to the branch store, such as "Store No. 10," "Southside Branch," "Milwaukee Branch," "Springfield Branch," or the name under which the branch store is operated if the name is different from that of the main store.

The purpose of the discussion here is not to give an elaborate explanation of branch store accounting, but to show the student some of the methods used. The subject of accounting in its various phases can not be mastered in an elementary course, and the student should understand that there is much more to learn about the subject than is given in an elementary accounting text.

BRANCH STORE ACCOUNT

§ 305. The Purpose of this Account is to show a record of all transactions with the branch store which it controls. This account is kept under the second plan discussed in § 304.

Debit the Branch Store Account:

¶ 1. For the net assets on hand at the branch store at the beginning of the fiscal period.
¶ 2. For merchandise sold to the branch by the main store.
¶ 3. For merchandise purchased for the branch by the main store.
¶ 4. For salaries and wages paid to employees of the branch store by the main store.
¶ 5. For other expenses paid for the branch by the main store.

Credit the Branch Store Account:

¶ 6. For cash received from the branch store for the sales made by it.
¶ 7. For the net assets on hand at the branch store at the close of of the fiscal period.

¶ 8. **The Balance of the Branch Store Account*, after the adjustments have been made for the inventories at the close of the fiscal period, will show the profit or loss resulting from the operations of the branch store; if the debit side is the larger, a loss, or if the credit side is the larger, a profit. The balance will be shown in the trading section on the Statement of Profit and Loss (Illustration No. 131) of the main store. The Statement of Profit and Loss submitted by the management of the branch store will support the entry on the Statement of Profit and Loss of the main store.

BRANCH STORE INVENTORY ACCOUNT

§ 306. The Purpose of this Account is to show the value of the assets on hand at the branch store at the close of the fiscal period; these assets include all property on the books of the branch store. If desired, the current assets, fixed assets, and deferred charges may be recorded in separate accounts. The manager of the branch store will prepare a Balance Sheet from his books and this will be used as a schedule to support the item "Branch Store Inventory" on the Balance Sheet (Illustration No. 130) of the main store. After the ledger is closed, the inventory or inventories of the branch store assets may be transferred to the Branch Store account (Illustration No. 134), or this transfer may be made at the close of the fiscal period.

*If desired, ¶ 7 may be omitted and ¶ 6 changed to read "For all sales made by the branch store." If these changes are made and the Branch Store account is debited with the net profit or credited with the net loss as shown by the Statement of Profit and Loss prepared by the manager of the branch store, the balance of this account will show the net value of the assets belonging to the branch store at the close of the fiscal period and will be shown as a current asset on the Balance Sheet of the main store prepared at that time.

§ 307. **A Controlling Account** is one which represents in total the facts shown in detail in a number of other accounts (§ 160). Controlling accounts are used more frequently with accounts receivable and accounts payable because usually a great number of accounts are required to record the transactions with customers and creditors. The controlling account is kept in the general ledger and the accounts which it controls, in a subsidiary ledger. The title of the controlling account in the general ledger for accounts with customers is Accounts Receivable, and for accounts with creditors, Accounts Payable.

§ 308. **The Accounts Receivable Account** in the general ledger contains in total the same debits and credits which appear in detail in the various accounts with customers in a subsidiary ledger. Each customer is debited in the subsidiary ledger with the amount of his purchase as recorded in the sales journal, and the Accounts Receivable account is debited at the end of the month with the total of this journal. Each customer is credited in the subsidiary ledger with cash received from him as recorded on the receipts side of the cash book, and the total of the cash received from customers is posted at the end of the month to the credit of the Accounts Receivable account in the general ledger; credits to customers which include cash and discount should be entered in special columns in the cash book. Each customer is credited, in a special column in the general journal, with notes, drafts, and assets other than cash accepted to apply on account, and the total of such credits is posted at the end of the month to the credit of the Accounts Receivable account in the general ledger. Each customer is credited in his account in a subsidiary ledger with the amount of each allowance for damaged goods or goods returned as recorded in the sales returns journal, and the total of this journal is posted at the end of the month to the credit of the Accounts Receivable account in the general ledger.

The balance of the controlling account with Accounts Receivable in the general ledger should be the same as the total of all the balances due from customers in a subsidiary ledger. After the Trial Balance from the general ledger has been proved, the balances in the subsidiary ledger should be listed and the total proved with the balance of the Accounts Receivable account.

§ 309. **The Accounts Payable Account** in the general ledger contains in total the same debits and credits which appear in detail in the various accounts with creditors in a subsidiary ledger. Each creditor is credited in the subsidiary ledger with the amount of the purchase from him as recorded in the purchases journal, and the Accounts Payable account is credited at the end of the month with the total of this journal. Each creditor is debited in the subsidiary ledger with cash paid to him as recorded on the payments side of the cash book, and the total of the cash paid creditors is posted at the end of the month to the debit of the Accounts Payable account in the general ledger; debits to creditors which include cash and discount should be entered in special columns in the cash book. Each creditor is debited, in a special column in the general journal, with notes, drafts, and assets other than cash given him to apply on account, and the total of such credits is posted at the end of the month to the debit of the Accounts Payable account in the general ledger. Each creditor is debited in his account in a subsidiary ledger with the amount of each allowance for damaged goods or goods returned to him as recorded in the purchases returns journal, and the total of this journal is posted at the end of the month to the debit of the Accounts Payable account in the general ledger.

The balance of the controlling account with Accounts Payable in the general ledger should be the same as the total of all the balances due creditors in a subsidiary ledger. After the Trial Balance from the general ledger has been proved, the balances in the subsidiary ledger should be listed and the total proved with the balance of the Accounts Payable account.

NOTES RECEIVABLE DISCOUNTED ACCOUNT

§ 310. The Purpose of this Account is to show the balance of unpaid notes receivable which have been discounted. When a note receivable is discounted, the holder guarantees payment at maturity by his endorsement; this creates a "contingent" liability. Contingent liabilities should be recorded in the ledger and shown on the Balance Sheet.

Debit this Account:

¶ 1. For the face of each discounted note receivable when it has been paid by the maker; no notice of protest at maturity indicates payment.

Credit this Account:

¶ 2. For the face of each note receivable discounted; this entry is made at the time the note is discounted.

¶ 3. *The Balance of the Notes Receivable Discounted Account* shows the amount of unpaid notes which have been discounted; it is shown as a contingent liability on the Balance Sheet or as a deduction from the Notes Receivable account (Illustration No. 130).

When a note or accepted draft is received, its value is recorded in the Notes Receivable account and should remain there until collected or protested. When a note receivable is discounted, Cash is debited and the Notes Receivable Discounted account credited. No notice of protest at maturity indicates collection; hence the amount of the note receivable should be taken out of the Notes Receivable account. This requires an entry in the general journal in which Notes Receivable Discounted is debited and Notes Receivable credited.

Should a note which has been discounted be protested, the one who discounted it will be required to issue his check to the holder for the face of the note, interest if any, and protest fees; this check is recorded as a debit to the Protested Notes Receivable account. At the same time the face of the note receivable should be taken out of the Notes Receivable account by an entry in the general journal in which Notes Receivable Discounted is debited and Notes Receivable credited.

Exercise No. 95, Sale of Branch Store

The Allyn Trading Company, a corporation, is operating a branch store in another city. Robert Montgomery, the manager of the branch store, wishes to purchase it, and it is agreed that if he can form a corporation to take over the assets of the branch store, the Allyn Trading Company will accept stock in the new corporation as part payment. The inventory of the branch store shows the net assets to be $22,550.00.

Mr. Montgomery applies for and secures a charter for the Montgomery Mercantile Company with a capital stock of $25,000.00. The Allyn Trading Company agrees to accept this amount for the branch store, to be paid as follows: cash, $5,000.00; stock in the Montgomery Mercantile Company, $5,000.00; three notes for $5,000.00 each, with interest at six per cent from date, due in six, twelve, and eighteen months respectively.

Make in journal form the entries necessary to record this transaction on the books of the Allyn Trading Company under date of December 1, 192.., assuming that the branch store accounts appear on the books of the Allyn Trading Company as Branch Store Inventory, Dr., $13,651.75; Branch Store Purchases, Dr., $15,409.11; and Branch Store Sales, Cr., $19,571.50.

Exercise No. 96, Constructing Selling Expense Accounts

Open accounts on a sheet of ledger paper with Advertising Expense, Advertising Material, Salaries in the Selling Department, Traveling Expense, Warehouse Material, Warehouse Expense, Delivery Expense, and Freight Out, and record at least three transactions in each account; indicate the nature of each item in the explanation column of the account in which it is recorded.

Exercise No. 97, Note Receivable Discounted.

Show, in journal form, the entries necessary to record a note receivable (a) when received from a customer to apply on account; (b) when discounted at the bank; (c) when the discounted note is paid by the maker; (e) when the discounted note is not paid but is renewed; (f) when the discounted note is protested.

Exercise No. 98, Agent and Principal.

The following transactions were completed by the Southern School Book Depository, agent for the Davis Publishing Company:

Jan. 1. Received from the Davis Publishing Company 500 Davis law texts at $1.00.
10. Sold the College Book Store, City, 100 law texts at $1.00.
15. Paid insurance on the stock of law texts, $12.50.
25. Received from the Davis Publishing Company 500 law texts at $1.00.
26. Sold the Central High School, City, 200 law texts at $1.00.
27. Paid $25.50 freight and drayage on the books received on the 25th.
Feb. 10. Sold Smith Bros., Kent, 150 law texts at $1.00. Paid express, $1.00.
25. Sold the Lincoln High School, Lincoln, 100 law texts at $1.00.
Mar. 5. Sold the Central Business College, City, 200 law texts at $1.00.
10. Received from the Davis Publishing Company 500 law texts at $1.00.
11. Paid freight and drayage on law texts received March 10, $27.65.
20. Received from the Lincoln High School five law texts which were delivered in a damaged condition; paid express 40c. Returned these to the Davis Publishing Company, paying express 50c.
31. Rendered Davis Publishing Company a report, and sent check for the balance due; commission, 12½% of net sales.

1. Record in journal form the above transactions, post and make the report of the bookkeeper of the Southern School Book Depository.
2. Record the same transactions as they would be recorded by the bookkeeper of the Davis Publishing Company.

QUESTIONS

1. Why is it advisable for a merchant who does a considerable volume of business to classify the selling expense through special accounts?
2. (a) What is the difference between Freight In and Freight Out? (b) How is each shown on the Statement of Profit and Loss?
3. Explain why it is advisable for a manufacturer who makes a delivered sale price, to credit Freight Out with the amount of the freight at the time the sale is made, and debit the Freight Out account when the freight is paid.
4. Explain the two methods for recording transactions with a branch store.
5. Who is an agent?
6. Who is a principal?
7. What is the purpose of the agent's account with the principal? the principal's account with the agent?
8. Will all the debits on the agent's account with the principal appear as credits on the principal's account with the agent?
9. Why is a liability incurred when a note receivable is discounted?
10. How is the liability incurred in question 9 shown on the Balance Sheet?

Chapter XXX

SPECIAL RULING IN BOOKS OF ACCOUNT

The Purpose of this Chapter is to explain the use and advantage of special columns in books of original entry through illustrations showing transactions recorded in them. A printed statement of the transactions recorded in the illustrations is given that the student may check the transactions with the entries. The method of posting from the special columns in each book of original entry is explained by requiring the student to post from the illustrations.

§311. Business Transactions are recorded in books of original entry and posted as they occur and in the order of their occurrence. When a number of transactions affect the same account, much time can be saved by providing a special column in each book of original entry which contains a record of transactions affecting the account. In a mercantile business, the usual books of original entry are (a) purchases journal, (b) returned purchases journal, (c) sales journal, (d) returned sales journal, (e) cash book, or separate cash receipts and cash payments journals, (f) notes receivable journal, (g) notes payable journal, and (h) general journal. In addition to these books of original entry a number of auxiliary books may be needed; these include the petty cash book, check book, and pay roll book.

§ 312. Petty Cash Fund refers to the fund provided for payments of small amounts when all cash received is deposited in the bank, and all payments are made by check. The cash needed for this fund is secured by check; the money received when the check is cashed is kept in the safe and used for paying obligations where the amount is small, usually less than $1.00. The bookkeeper requires a receipt for each payment from the petty cash fund. The Petty Cash Fund account is debited for the amount of the check at the time it is issued. Expenditures from the petty cash fund are recorded in the petty cash book. When the fund is exhausted, a check is issued to renew it. This check is debited to the accounts affected by the expenditures as shown by the petty cash book. The Petty Cash Fund account in the general ledger will show the amount of the petty cash fund; this may be $20.00, $50.00 or $100.00, depending on the desires of the management.

§ 313. The Petty Cash Book is an auxiliary book which contains a record of expenditures from the petty cash fund. When these expenditures affect a number of expense accounts, special columns should be provided for each account in the same manner as special columns are provided on the payments side of the cash book. The petty cash book should be ruled when the petty cash fund is exhausted. The amount of the check to renew the fund should be sufficient to bring it up to the balance of the Petty Cash Fund account in the general ledger, which is the amount decided upon as the petty cash fund. At the close of the fiscal period, the petty cash book should be balanced, the amount of the fund on hand carried down below the ruling, and the expenditures debited to the proper operating accounts in the general journal, otherwise these expenditures would not be shown on the reports. Illustration No. 119 shows a petty cash book with seven amount columns; the use of these columns is explained by the headings.

TRANSACTIONS RECORDED IN THE ILLUSTRATIONS

§ **314. The Books of Account** shown in Illustrations Nos. 111–120, contain a record of the transactions performed by the Arnold Drug Store during the month of December. The use of the special columns in each illustration can be better understood by comparing each entry with the transaction.

December 2

Paid rent for the month, $75.00, by our check No. 63.

Sold Miller & Barr, Canton, per sales invoice No. 77, drugs, $102.74, sundries, $54.16; terms, 2% trade acceptance, 30 days. Received in payment of this invoice, less 2% discount, their 30-day trade acceptance payable at the Citizens' Bank of Canton.

Received from Williams Pharmacy in payment for sales invoice No. 60, a 60-day note, $287.11, dated November 15, signed by J. B. Macklin, payable at the City National Bank, with interest at 6% from date; allowed them credit for the accrued interest on the note.

Gave Tanner & Co. our 15-day note for $217.25, payable at the City National Bank, dated November 30, with interest at 6% from date, in payment for purchases invoice No. 15.

Paid $4.00 from the petty cash fund for stamps to be used in the office.

Accepted John D. Park & Son's 60-day trade acceptance for $557.75, payable at the City National Bank, in payment for purchases invoice No. 20 less 3% discount as per terms.

December 192

Date	L. F.	Account Credited	Address	Date of Invoice and Terms	Inv. No.	Accts. Payable Cr.	Drugs—Pur. Dr.	Sundries—Pur. Dr.
4	19	Park, Davidson & Co.	Chicago	Dec. 2-2/10, n/30	23	450	250	200
6	24	Special Chemical Co.	Chicago	4-3/10, n/30	24	694 38	694 38	
13	4	Artrip & Seeds	24 Fremont St., City	12-5/10, n/60	25	214 21	11 21	203
14	26	Tanner & Co.	Kansas City	11-15 days	26	69 44		69 44
16	13	Independent Drug Co.	West End, City	15-30 days	27	623 50	623 50	
18	8	P. W. Drackett & Sons Co.	Spring Grove Ave. City	17-3/10, n/30	28	141 60	141 60	
26	19	Park, Davidson & Co.	Chicago	23-2/10, n/30	29	370	60 40	309 60
27	20	John D. Park & Son	Erie	26-3% T.A.	30	263 46		263 46
						(5) 2826 59	(5) 1781 09	(5) 1045 50
						2826 59	1781 09	1045 50

Illustration No. 111, Purchases Journal.

EXPLANATION. The method of recording is the same as in other purchases journals illustrated in preceding chapters, except that a record is kept of the merchandise purchased for two separate departments, as indicated by the printed headings at the top of the amount columns. At the end of the month, the Accounts Payable account is credited for the total of the first column, the Drugs Purchases account debited for the total of the second column, and the Sundries Purchases account debited for the total of the third column.

December 4

Bought from Park, Davidson & Co., Chicago, per purchases invoice No. 23, dated December 2, drugs, $250.00, sundries, $200.00; terms 2/10, n/30,

December 6

Paid from the petty cash fund 95c for gasoline for truck and $1.05 for advertisement in the Herald.

Sold Armstrong Drug Co., 560 Race St., City, per sales invoice No. 78, drugs, $84.75, sundries, $29.22; terms, 3/10, n/60.

Bought from the Special Chemical Co., Chicago, per purchases invoice No. 24, dated December 4, drugs, $694.38; terms, 3/10, n/30.

Cash sales to date: drugs, $22.50; sundries, $6.75.

December 192

Date	L. F.	Account Debited	Address	Cr. Memo. No.	Inv. No.	Accts. Pay. Dr.	Drugs Pur. Ret. Cr.	Sundries Pur. Ret. Cr.
9	19	Park, Davidson & Co.	Chicago	56	23	2 20		2 20
10	24	Special Chemical Co.	Chicago	18	24	4 25	4 25	
16	4	Artrip & Leeds	24 Fremont Ave. City	11	25	16 95	6 95	10
21	8	P. W. Drackett & Sons Co.	Spring Grove Ave. City	32	28	2 90	2 90	
						(5) 26 35	(5) 14 15	(5) 12 20

Illustration No. 112, Returned Purchases Journal.

EXPLANATION. This journal contains a record of merchandise returned to creditors; the same number of amount columns is provided as in the purchases journal. At the end of the month, the Accounts Payable account is debited for the total of the first column, the Drugs Purchases Returns account credited for the total of the second column, and the Sundries Purchases Returns account credited for the total of the third column.

December 7

Gave Armstrong Drug Co. our credit memorandum No. 4, for sundries sold them on the 6th and returned, $1.25.

Proved cash (balance, $3,357.92), and posted. All cash on hand is deposited in the bank each time cash is proved.

December 9

Received credit memorandum No. 56 from Park, Davidson & Co. for sundries purchased on the 4th and returned, $2.20.

Received a check from Brand & Wing for $109.96 in payment for their past-due account, and 56c interest on the same.

Received $11.25 from Grant & Watkins in full for sales invoice No. 76 less 3% discount as per terms.

December 10

Sold St. Cloud Sanatorium, St. Cloud Heights, per sales invoice No. 79, drugs, $159.60, sundries, $84.60, f. o. b. our freight station; terms, 3/10, n/60.

Paid $20.90, express on the shipment to the St. Cloud Sanatorium, by our check No. 64.

Received a check from L. M. Kirk for $65.15 in payment for his 60-day note dated October 11, and 65c interest, due today.

Paid $1.75 from the petty cash fund for repairs on truck.

Gave the Goodyear Rubber Co., our 30-day note for $167.25 payable at the City National Bank, in full of account, and 6% interest on the note in advance.

Received credit memorandum No. 18 from Special Chemical Co. for drugs purchased on the 6th and returned, $4.25.

December 192

Date	L. F.	Account Debited	Address	Terms	Sale No.	Accts. Rec. Dr.	Drugs—Sales Cr.	Sundries—Sales Cr.
2	26	Miller & Barr	Canton	2% 10, n 30 days	77	154 20	102 74	54 16
6	7	Armstrong Drug Co.	516 Race St., City	3/10, n/60	78	113 97	84 75	29 22
10	27	St. Cloud Sanatorium	St. Cloud Heights	3/10, n/60	79	244 20	159 60	84 60
11	25	Martin & Martin	1471 Elm St., City	3/10, n/60	80	394 50	100 10	294 40
17	11	Forsien Bros.	Lancaster	2% 10, n 30 days	81	31 28		31 28
19	28	Williams Pharmacy	5240 Cedar St., City	3/10, n/60	82	142 77	68 27	74 50
23	17	Independent Hospital	Third & Locust Sts., City	3/10, n/60	83	199 90	122 44	77 46
23	11	Rainer's Pharmacy	Front & Broadway, City	3/10, n/60	84	274 33	101 23	173 10
26	27	Smith & Schott	205 E. Clarion St., City	3/10, n/60	85	135 40	98 98	36 42
26	26	Miller & Barr	Canton	2% 10, n 30 days	86	35 58	10 87	24 71
27	9	Court House Pharmacy	388 Walnut St., City	3/10, n/60	87	412 97	334 29	78 68
30	23	Market Prescription Pharmacy	2013 Main St., City	3/10, n/60	88	202 77	202 77	
30	26	Model Pharmacy	504 Smith St., City	3/10, n/60	89	234 65	135 60	99 05
31	25	Martin & Martin	1471 Elm St., City	3/10, n/60	90	503 11	204 09	299 02
						3082 33	1725 73	1356 60

Illustration No. 113, Sales Journal.

EXPLANATION. The method of recording is the same as in other sales journals illustrated in preceding chapters, except that a record is kept of the merchandise sold by two separate departments, as indicated by the printed headings at the top of the amount columns. At the end of the month, the Accounts Receivable account is debited for the total of the first column, the Drugs Sales account is credited for the total of the second column, and the Sundries Sales account is credited for the total of the third column.

December 11

Sold Martin & Martin, 1471 Elm St., City, per sales invoice No. 80, drugs, $100.10, sundries, $294.40; terms, 3/10, n/60.

December 12

Paid $2.50 from the petty cash fund for repairs on warehouse steps.

Gave Park, Davidson & Co., our check No. 65 for $438.84 in payment for purchases invoice No. 23, less credit for sundries returned on the 9th and discount as per terms.

December 13

Bought from Artrip & Leeds, 24 Fremont St., City, per purchases invoice No. 25, dated December 12, drugs, $11.21, sundries, $203.00; terms, 5/10, n/60.

Gave Martin & Martin our credit memorandum No. 5 for drugs sold them on the 11th and returned, $4.50.

Cash sales to date: drugs, $28.19; sundries, $18.30.

December 14

Bought from Tanner & Co., Kansas City, per purchases invoice No. 26, dated December 11, sundries, $69.44, f. o. b. Kansas City; terms, 15 days.

Paid $6.31, freight on purchase from Tanner & Co. received today, by our check No. 66.

Paid 15c from the petty cash fund to reimburse Mr. Arnold for carfare he had paid on a buying trip in the West End.

Gave Special Chemical Co. our check No. 67 for $669.43 in payment for purchases invoice No. 24, less credit for drugs returned on the 10th and discount as per terms.

Withdrew from the bank by our check No. 68, $140.00 for pay roll as follows: warehouse employee, $10.00; delivery truck driver, $30.00; selling department employees, $60.00; office employees, $40.00.

Proved cash (balance, $2,315.29) and posted.

December 192

Date	L. F.	Account Credited	Address	Cr. Memo. No.	Sale No.	Accts. Rec. Cr.	Drugs Sales Ret. Dr.	Sundries Sales Ret. Dr.
7	7	Armstrong Drug Co.	560 Race St., City	12	78	1 25		1 25
13	25	Martin & Martin	1471 Elm St., City	5	80	4 50	4 50	
21	11	Horsley Bros.	Lancaster	6	81	1		1
28	9	Court House Pharmacy	988 Walnut St., City	7	77	3 75	3 75	3 75
				1	1	11 75	8	3 75

Illustration No. 114, Returned Sales Journal.

EXPLANATION. This journal contains a record of merchandise returned by customers; the same number of amount columns is provided as in the sales journal. At the end of the month, the Accounts Receivable account is credited for the total of the first column, the Drugs Sales Returns account is debited for the total of the second column, and the Sundries Sales Returns account debited for the total of the third column.

December 16

Bought from Independent Drug Co., West End, City, per purchases invoice No. 27, dated December 15, drugs, $623.50; terms, 30 days.

Paid $3.50 from the petty cash fund for express on purchase received today; the terms of sale did not include delivery.

Received credit memorandum No. 11 from Artrip & Leeds for merchandise purchased on the 13th and returned: drugs, $6.95; sundries, $10.00.

Borrowed $1,000.00 from the City National Bank on our three months' note dated today; received credit in the pass book for the face of the note less 6% interest.

Gave the City National Bank check No. 69 for $217.79 in payment for note and interest due on the 15th.

Received $109.34 from Armstrong Drug Co. in full for sales invoice No. 78, less credit for sundries returned on the 7th and discount as per terms.

Received notice from Tanner & Co. that they had debited our account with $10.00, amount of error in purchases invoice No. 26.

December 17

Sold Horsley Bros., Lancaster, per sales invoice No. 81, sundries, $31.28; terms, 2% trade acceptance 30 days.

L. A. Arnold, S. J. Moore, A. Y. Barnes, R. W. Lawson, and C. J. Barber made application to the Secretary of State to incorporate the drug business of L. A. Arnold with a capital stock of $60,000.00, consisting of six hundred shares common stock, par value $100.00 per share. L. A. Arnold agreed to purchase two hundred shares and each of the other incorporators, twenty-five shares.

No entry is required in the books of account until the charter has been granted.

December 18

Received a 30-day note from J. M. McDougal for $250.00, dated December 16, payable at the Second National Bank, in full of account; gave him credit for the face of the note less 6% interest in advance.

Bought from P. W. Drackett & Sons Co., Spring Grove Ave., City, per purchases invoice No. 28, dated December 17, drugs, $141.60; terms, 3/10, n/30.

Paid $3.75 from the petty cash fund for Christmas decorations for window.

Received from Horsley Bros. their 30-day trade acceptance, dated December 17, payable at the Lancaster National Bank, in payment for sales invoice No. 81 less discount as per terms.

Cash Receipts

December, 19--

Date	LF	Account Credited	Explanation	Accts Rec Cr Net Amt.	Accts Rec Cr S Disc Dr	General Cr	Drugs Sales Cr.	Sundries Sales Cr	Bank Dr.
2	✓	Balance	On bank						3403 67
6	✓	Sales—Drugs and Sundries 3587 92	Cash sales				2259	675 33	2934 92
9	8	Brand & King	In full of acct	1094 3					
9	15	Interest Earned	Above past-due acct			5			
9	16	Grant & Watkins	In full of invoice 1123	1125	35				
10	2	Notes Receivable	J. M. Kirk's note			6450			
10	15	Interest Earned	On above note			65			
13	✓	Sales—Drugs and Sundries 2315 29	Cash sales	1206 9	31	657 1	2810	1830	4232 85
16	✓	Notes Payable	Borrowed from bank			985			985
16	7	Armstrong Bros & Co.	In full of invoice 1216	1034	3 38				
20	27	St. Cloud Sanatorium	In full of inv 1210 less disc	257 77	7 33				
20	✓	Sales—Drugs and Sundries 3526 76	Cash sales	487 76	1 1 6	050 71	43 40	33 75	4426
23	25	Martin & Martin	In full of invoice 1218	3783	11 70				
26	1	Hard, Hard & Co	Ret truck for cash note			2440 23			
27	✓	Sales—Drugs and Sundries 3924 75	Cash sales	861	22 74	2940 71	176 35	2415	7802 05
31	2	Notes Receivable	Miller & Barr's note			153 6			
31	✓	Sales—Drugs and Sundries	Cash sales	8512	32 27	6001	2503	2032	21846
				8512	32 27	6001	2503	2032	21846

Illustration No. 115, Receipts Side of Cash Book.

EXPLANATION. This illustration shows a record of cash received. The printed headings explain the use of the special columns. All cash received is deposited, and all cash payments made by check. An account is kept with the bank in the general ledger; at the end of each month it is debited with the total deposits and credited with the total checks issued during the month.

December 19

Sold Williams Pharmacy, 8240 Cedar St., City, per sales invoice No. 82, drugs, $68.27, sundries, $74.50; terms, 3/10, n/60.

December 20

Received a check for $257.77 from St. Cloud Sanatorium in full for sales invoice No. 79, including freight, less discount as per terms.

Cash sales to date: drugs, $43.40; sundries, $33.75.

December 21

Received credit memorandum No. 32 from P. W. Drackett & Sons Co. for drugs purchased on the 18th and returned, $2.90.

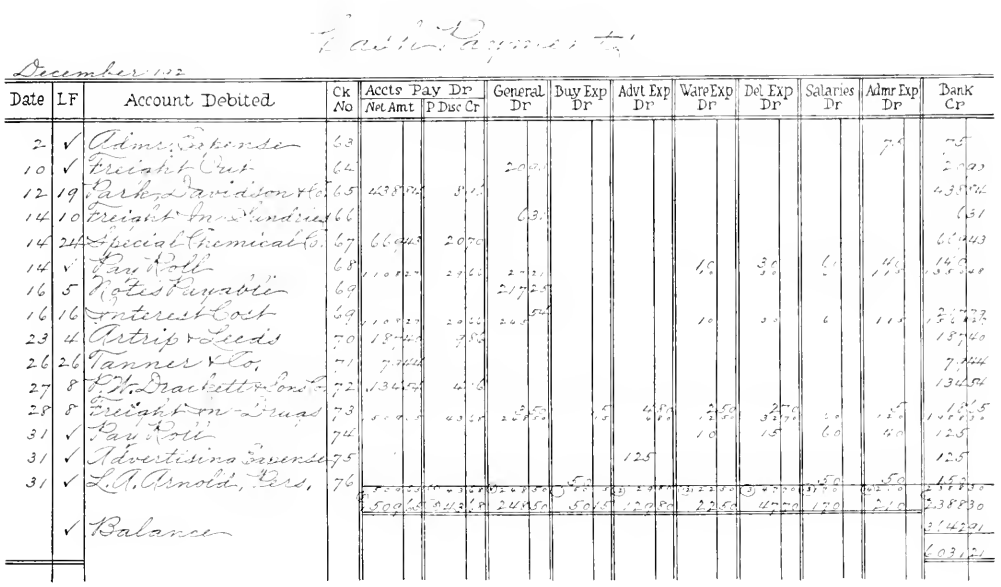
Gave Horsley Bros. our credit memorandum No. 6 for sundries sold them on the 17th and returned, $1.00.

Proved cash (balance, $3,526.76) and posted.

December 23

Sales as follows: Independent Hospital, Third and Locust, City, per sales invoice No. 83, drugs, $122.44, sundries, $77.46; terms, 3/10, n/60. Haefner's Pharmacy, Hunt and Broadway, City, per sales invoice No. 84, drugs, $101.23, sundries, $173.10; terms, 3/10, n/60.

Gave the Special Chemical Co. our 30-day note for $275.00, payable at the City National Bank, with interest at 6% from date, in payment for purchases invoice No. 22.



Cash Payments

December 1902

Date	LF	Account Debited	Ck No	Accts Pay Dr Net Amt	Accts Pay Dr P Disc Cr	General Dr	Buy Exp Dr	Advt Exp Dr	Ware Exp Dr	Del Exp Dr	Salaries Dr	Admr Exp Dr	Bank Cr
2	✓	Admr. Expense	63									7.50	7.50
10	✓	Freight Out	64			20.00							20.00
12	19	Park, Davidson & Co.	65	443.82	8.42								435.40
14	10	Freight In — Lindrin	66			6.31							6.31
14	24	Special Chemical Co.	67	66.43	2.00								64.43
14	✓	Pay Roll	68	1082.00	29.52	217.25			15.00	30.00	60.00	140.00	1358.48
16	5	Notes Payable	69			2000.00							2000.00
16	16	Interest Cost	69	10.00	2.00	8.00			10.00	5.00	6.00	11.50	32.50
23	4	Artrip & Leeds	70	187.40	4.80								182.60
26	26	Tanner & Co.	71	79.44									79.44
27	8	F. W. Brackett & Sons	72	134.84	4.00								130.84
28	8	Freight In — Druas	73	5.00	0.35	2.85	1.50	4.80	2.50	3.50	1.25	1.50	20.05
31	✓	Pay Roll	74						10.00	15.00	60.00	40.00	125.00
31	✓	Advertising Suense	75					125.00					125.00
31	✓	L. A. Arnold, Pres.	76	500.00	20.00	240.00	50.00	129.80	22.50	45.00	120.00	210.00	1256.30
	✓	Balance											3142.91
													4603.21

Illustration No. 116, Payments Side of Cash Book.

EXPLANATION. This illustration shows a record of cash paid, all payments being made by check. The printed headings explain the use of the special columns. The posting at the end of the month is the same as from the payments side of any cash book, except that the bank is credited with the total payments instead of the account with Cash.

December 23

Received $378.30 from Martin & Martin in full for sales invoice No. 80, less credit for drugs returned on the 13th and discount as per terms.

Gave Artrip & Leeds our check No. 70 for $187.40 in payment for purchases invoice No. 25, less credit for drugs and sundries returned on the 16th and discount as per terms.

December 26

Bought from Park, Davidson & Co., Chicago, per purchases invoice No. 29, dated December 23, drugs, $60.40, sundries, $309.60; terms, 2/10, n/30.

Gave Tanner & Co. our check No. 71 for $79.44 in payment for purchases invoice No. 26, plus error of the 16th.

Sales as follows: Smith & Schott, 205 E. Pearl St., City, per sales invoice No. 85, drugs, $98.98, sundries, $36.42; terms, 3/10, n/60. Miller & Barr, Canton, per sales invoice No. 86, drugs, $10.87, sundries, $24.71; terms, 2% trade acceptance, 30 days.

Paid $1.00 from the petty cash fund for electric bulbs to be used in the office.

Sold the Ford delivery truck to Sears, Ward & Co. for $750.00. Received in payment their check for $244.22, and a 60-day note for $503.76, signed by John R. Bates, dated November 26, with interest at 6% from date; allowed them credit for the accrued interest on the note.

December 27

Boughtfrom John D. Park & Son, Erie, per purchases invoice No. 30, dated December 26, sundries, $263.46; terms, 3% trade acceptance, 60 days.

*

Notes Receivable

Date Rec'd	Our No.	L. F.	FROM WHOM RECEIVED (Personal Account Credited)	Face of Paper Notes Rec. Dr.	INTEREST EARNED Dr.	INTEREST EARNED Cr.	Accts. Rec. Cr.	Geo'l Ledger Cr.	MAKER (Note) DRAWEE (Draft)
Dec. 2	6	26	Miller & Barr	153 76			153 76		Miller & Barr
2	7	28	Williams Pharmacy	287 11	81		287 92		J. B. Macklin
18	8	22	J. M. McDougal	250		1 25	248 75		J. M. McDougal
18	9	11	Horsley Bros.	30 65			30 65		Horsley Bros.
26	10	✓	Sears, Ward & Co.	503 76	2 02			505 78	John R. Bates
30	11	27	St. Cloud Sanatorium	400		4	396		B. C. Waters, Prop.
				(2) 1625 28	(15) 2 83	(5) 5 25	(2) 1117 08		
				1625 28	2 83	5 25	1117 08	505 78	

Illustration No. 117, Left Page of Notes Receivable Journal.

EXPLANATION. This illustration shows a record of notes and accepted drafts received by the business. The amount columns indicate that it is used as a book of original entry, hence the notes are not recorded in the general journal. The printed heading at the top of each amount column indicates the account affected.

Notes Payable

Date	Our No.	L. F.	IN WHOSE FAVOR (Personal Account Debited)	Face of Paper Notes Pay. Cr.	INTEREST COST Dr.	INTEREST COST Cr.	Accts. Pay. Dr.	Geo'l Ledger Dr.	MAKER (Note) DRAWEE (Draft)
Dec. 2	3	26	Tanner & Co.	217 25			217 25		L. A. Arnold
2	4	20	John D. Park & Son	557 75			557 75		" " "
10	5	11	Goodyear Rubber Co.	167 25	84		166 41		" " "
16	6	✓	City National Bank	1000	15			985	" " "
23	7	28	Special Chemical Co.	275			275		" " "
				(5) 2217 25	(16)		(5) 1216 41	(2)	
				2217 25	15 84		1216 41	985	

Illustration No. 118, Left Page of Notes Payable Journal.

EXPLANATION. This illustration shows a record of notes issued and drafts accepted by the business. The amount columns indicate that it is used as a book of original entry, hence the notes are not recorded in the general journal. The printed heading at the top of each amount column indicates the account affected.

Sold Court House Pharmacy, 988 Walnut St., City, per sales invoice No. 87, drugs, $334.29, sundries, $78.68; terms, 3/10, n/60.

Gave P. W. Drackett & Sons Co. our check No. 72 for $134.54 in payment for purchases invoice No. 28, less credit for drugs returned on the 21st and discount as per terms.

Cash sales to date: drugs, $71.35; sundries, $24.15.

December 28

Gave the Court House Pharmacy our credit memorandum No. 7 for merchandise sold them on the 27th and returned: drugs, $3.50; sundries, $1.50.

Issued check No. 73 for $18.65 to renew the petty cash fund.

Proved cash (balance, $3,824.75), and posted.

December 30

Sales as follows: Market Prescription Pharmacy, 2013 Main St., City, per sales invoice No. 88, drugs, $202.77; terms, 3/10, n/60. Model Pharmacy, 604 Smith St., City, per sales invoice No. 89, drugs, $135.60; sundries, $99.05; terms, 3/10, n/60.

Received from St. Cloud Sanatorium a 60-day note for $400.00, signed by B. C. Waters, Proprietor, dated January 1, to apply on account; gave them credit for the face of the note less 6% interest in advance.

December 31

Received a check for $153.76 from Miller & Barr in payment for trade acceptance dated December 2.

Notes Receivable

DATE OF PAPER Year	Month & Day	Time to Run	Rate of Int.	WHEN DUE YEAR	Jan. (1)	Feb. (2)	Mch. (3)	April (4)	May (5)	June (6)	July (7)	Aug. (8)	Sept. (9)	Oct. (10)	Nov. (11)	Dec. (12)	WHERE PAYABLE	REMARKS
192	Dec. 2	30 days		92	1												City Exposition Bank	2% 1 Paid 1/5
192	Nov. 15	60 "	5%	92	14												City National Bank	
192	Dec. 16	30 "		92	15												Second National Bank	
192	Dec. 17	30 "		92	16												Lancaster, Pa. Bank	2% 1 A.
192	Nov. 26	60 "	6%	92	25												City National Bank	
192	Jan. 1	60 "		93			2										Bank of Miami	

Illustration No. 117, Right Page of Notes Receivable Journal.

EXPLANATION. At the end of the month the Notes Receivable account is debited for the total notes received, and the Accounts Receivable account credited for the total credits allowed customers on account of these notes; Interest Earned is debited or credited for the difference between these totals.

Notes Payable

DATE OF PAPER Year	Month & Day	Time to Run	Rate of Int.	WHEN DUE YEAR	Jan. (1)	Feb. (2)	Mch. (3)	April (4)	May (5)	June (6)	July (7)	Aug. (8)	Sept. (9)	Oct. (10)	Nov. (11)	Dec. (12)	WHERE PAYABLE	REMARKS
192	Nov. 30	15 days	6%	192												15	City National Bank	Paid 12
192	Dec. 2	60 "		192	31												" " "	3%
192	Dec. 10	30 "		192	9												" " "	
192	Dec. 16	3 mos		192			16										" " "	
192	Dec. 23	30 days	6%	192	22												" " "	

Illustration No. 118, Right Page of Notes Payable Journal.

EXPLANATION. At the end of the month the Notes Payable account is credited for the total notes issued, and the Accounts Payable account debited for the total credits allowed the business on account of these notes; Interest Cost is debited or credited for the difference between these totals.

Petty Cash Fund

Date		Explanation	Receipts	Buying Expense	Advt. Expense	Warehouse Expense	Delivery Expense	Admn. Expense	Sundry Accounts Name	Sundry Accounts Amount
192										
Nov.	30	Balance	2 42							
	30	Check No. 60	17 58							
Dec.	2	Stamps for office						4		
	6	Gasoline for truck					95			
	6	Advertisement in the Herald			1 05					
	10	Repairs on truck					1 75			
	12	Repairs on warehouse steps				2 50				
	14	Carfare on business trip		15						
	16	Express on purchases							Miscellaneous Fund	3 50
	18	Christmas decorations			3 75					
	26	Electric bulbs						1		
			20	15	4 80	2 50	2 70	5		3 50
Dec.	28	Balance	1 35							
	28	Check No. 73	18 65							

Illustration No. 119, Petty Cash Book.

EXPLANATION. This illustration shows a record of cash payments from the petty cash fund. The headings at the top of the amount columns indicate the accounts affected; these columns are the same as on the payments side of the cash book, except that a column for Salaries in the Selling Department is not needed in the petty cash book. The total of each column may be transferred to the cash book at the end of the month, or at the time the petty cash fund is renewed.

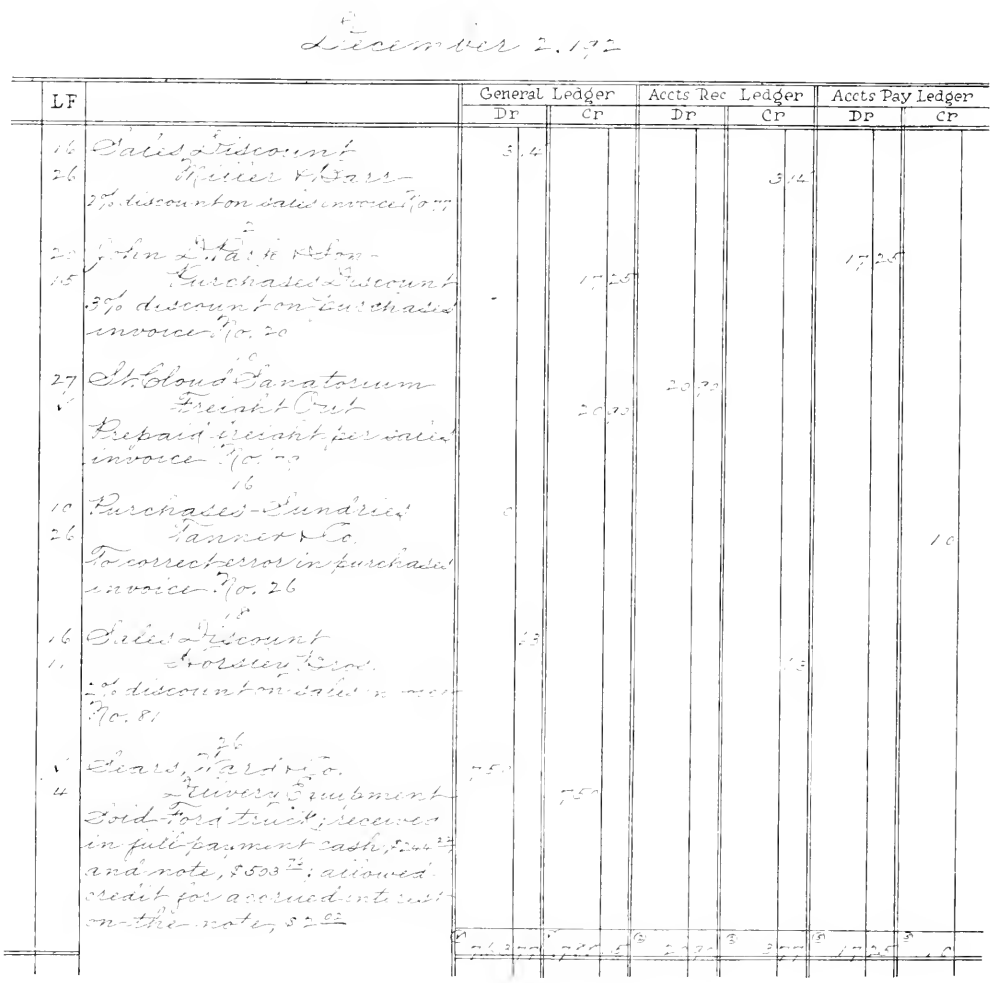


Illustration No. 120, General Journal.

EXPLANATION. The printed headings explain the use of the special columns. Columns may be provided for recording returned purchases and returned sales if these transactions do not occur with sufficient frequency to require a returned purchases journal and a returned sales journal. The equality of the debits and credits recorded in the columns should be proved at the conclusion of each page before forwarding the totals.

December 31

Sold Martin & Martin, 1471 Elm St., City, per sales invoice No. 90, drugs, $204.09, sundries, $299.02; terms, 3/10, n/60.

Withdrew from the bank by our check No. 74, $125.00 for pay roll as follows: warehouse employee, $10.00; delivery truck driver, one week, $15.00; selling department employees, $60.00; office employees, $40.00.

Paid for advertising service, $125.00, by our check No. 75.

Gave Mr. Arnold a check for $150.00, salary for the month, distributed as follows: Buying Expense, Salaries in Selling Department, and Administrative Expense, each one-third.

Cash sales to date: drugs, $44.20; sundries, $20.20.

Proved cash (balance, $3,642.91) and posted.

Exercise No. 99, Recording Transactions.

The purpose of this exercise is (a) to familiarize the student with the special columns shown in the illustrations by having him check the transactions recorded in them, (b) to provide practice in posting from these special ruled books of original entry, and (c) to provide practice in recording transactions in books of account with special ruling similar to the illustrations. The work required should be completed in the following order:

1. Check the transactions for December with the illustrations.

2. Open (on ledger paper) the accounts given in the list below. Arrange in the order given, and allow the number of lines indicated by the number in parenthesis after the name of each account. The amount given after the name of the account indicates the balance on the November 30 Trial Balance of the Arnold Drug Store.

General Ledger

City National Bank (7), Dr., $3,403.67.
Petty Cash Fund (4), Dr., $20.00.
Notes Receivable (5), Dr., $64.50.
Accounts Receivable (8), Dr., $1,057.67.
Reserve for Doubtful Accounts (4).
Accrued Interest Earned (4).
Subscribers to Capital Stock (4).
Office Equipment (5), Dr., $750.00.
Reserve for Dep. of Office Equipment (4).
Store Fixtures (4), Dr., $1,803.22.
Reserve for Depreciation of Store Fixtures (4).
Delivery Equipment (4), Dr., $1,750.00.
Reserve for Dep. of Delivery Equipment (4).
Goodwill (4).
Prepaid Interest Cost (4).
Office Supplies (4).
Advertising Material (4).
Delivery Truck Supplies (4).
Organization Expense (4).
Notes Payable (4).
Accounts Payable (8), Cr., $1,233.66.
Accrued Interest Cost (4).
Accrued Warehouse Rent (4).
Accrued Advertising Expense (4).
Deferred Credit to Interest Earned (4).
L. A. Arnold, Capital (7), Cr., $15,000.00.
Capital Stock (4).
Unissued Capital Stock (4).
Subscriptions to Capital Stock (4).
Drugs—Sales (7), Cr., $20,652.90.
Drugs—Sales Returns (6), Dr., $67.42.
Drugs—Inventory, Jan. 1 (4), Dr., $5,437.98.
Drugs—Inventory, December 31 (4).
Drugs—Purchases (6), Dr., $17,901.10.
Drugs—Freight In (6), Dr., $46.15.
Drugs—Purchases Returns (6), Cr., $45.65.
Sundries—Sales (7), Cr., $15,868.03.
Sundries—Sales Returns (6), Dr., $37.50.
Sundries—Inventory, Jan. 1 (4), Dr., $3,987.62
Sundries—Inventory, December 31 (4).
Sundries—Purchases (7), Dr., $10,298.80.
Sundries—Freight In (6), Dr., $102.40.
Sundries—Purchases Returns (6), Cr., $89.22.
Buying Expense (6), Dr., $529.06.
Selling Expense (4).
Advertising Expense (8), Dr., $1,114.98.
Warehouse Expense (7), Dr., $294.10.
Delivery Expense (8), Dr., $374.84.
Salaries in Selling Dept. (6), Dr., $1,707.75.
Loss on Doubtful Accounts (4).
Administrative Expense (8), Dr., $2,149.63.
Purchases Discount (7), Cr., $632.47.
Interest Earned (10), Cr., $32.90.
Sales Discount (8), Dr., $436.35.
Interest Cost (9), Dr., $220.09.
Profit and Loss (25).

Accounts Receivable Ledger

Armstrong Drug Co. (6).
Brand & Wing (4), Dr., $109.40.
Court House Pharmacy (4).
Grant & Watkins (5), Dr., $11.60.
Haefner's Pharmacy (4).
Horsley Bros. (6).
Independent Hospital (4).
J. M. McDougal (4), Dr., $248.75.
Market Prescription Pharmacy (8).
Martin & Martin (6).
Miller & Barr (5).
Model Pharmacy (4).
Smith & Schott (4).
St. Cloud Sanatorium (5), Dr., $400.00.
Williams Pharmacy (5), Dr., $287.92.

Accounts Payable Ledger

Artrip & Leeds (6).
P. W. Drackett & Sons Co. (6).
Goodyear Rubber Co. (4), Cr., $166.41.
Independent Drug Co. (4).
Park, Davidson & Co. (6).
John D. Park & Son (5), Cr., $575.00.
Special Chemical Co. (7), Cr., $275.00
Tanner & Co. (6), Cr., $217.25.

3. Post the entries in the illustrations including the totals of the special columns, and take a Trial Balance from the general ledger, the accounts payable ledger and the accounts receivable ledger.

4. Prepare journal entries for the following:

(a) Drugs in stock, December 31, $7,315.82; sundries in stock, December 31, $1,238.54.
(b) Interest accrued on notes receivable, $5.14.
(c) Interest accrued on notes payable, 37c; warehouse rent for December unpaid, $50.00; advertising service for two months unpaid, $35.00.
(d) Interest on notes payable paid in advance, $12.75; office supplies on hand, $127.60; advertising material on hand, $139.44; gasoline and other supplies for delivery truck on hand, $42.11.
(e) Interest on notes receivable collected in advance, $4.63.
(f) Reserves: Office Equipment, 3%; Store Fixtures, 3%; Delivery Equipment, 5%; Doubtful Accounts, 1% of Accounts Receivable.

5. Post these (a-f) entries to the accounts on the ledger sheets and take a second Trial Balance.

6. Prepare a Balance Sheet and Statement of Profit and Loss from the Trial Balance taken after the adjusting entries have been posted.

7. Make the closing journal entries, post these, rule all accounts that balance, and take a post-closing Trial Balance. This should show the following:

City National Bank, Dr., $3,642.91; Petty Cash Fund, Dr., $20.00; Notes Receivable, Dr., $1,471.52; Accounts Receivable, Dr., $2,139.48; Reserve for Doubtful Accounts, Cr., $21.39; Office Equipment, Dr., $750.00; Reserve for Depreciation of Office Equipment, Cr., $22.50; Store Fixtures, Dr., $1,803.22; Reserve for Depreciation of Store Fixtures, Cr., $54.10; Delivery Equipment, Dr., $1,000.00; Reserve for Depreciation of Delivery Equipment, Cr., $50.00; Notes Payable, Cr., $2,000.00; Accounts Payable, Cr., $1,256.96; Accrued Warehouse Rent, Cr., $50.00; L. A. Arnold, Capital, Cr., $16,213.58; Drugs—Inventory, December 31, Dr., $7,315.82; Sundries—Inventory, December 31, Dr., $1,238.54; Advertising Expense, Dr., $139.44, Cr., $35.00; Delivery Expense, Dr., $42.11; Administrative Expense, Dr., $127.60; Interest Earned, Dr., $5.14, Cr., $4.63; Interest Cost, Dr., $12.75, Cr., 37c.

8. Record the transactions given below in books of original entry (loose sheets of paper) ruled similar to the illustrations in this chapter. The January transactions will be posted to the same ledger sheets used for posting the December transactions.

MEMORANDA OF TRANSACTIONS FOR JANUARY

January 2

At a meeting of the subscribers to the capital stock of the Arnold Drug Company, it was agreed to pay L. A. Arnold $18,000.00 for his interest in the business he has been operating, and to assume all liabilities of the business. L. A. Arnold agreed to accept 180 shares of stock in payment for his interest and to pay by check one half of his subscription for 200 additional shares, the remainder to be paid within thirty days. The other subscribers agreed to pay cash for one half of the stock subscribed and the balance within thirty days. L. A. Arnold, S. J. Moore, A. Y. Barnes, and R. W. Lawson were elected as the board of directors.

At a meeting of the board of directors, L. A. Arnold was elected president and S. J. Moore, secretary-treasurer. Checks in payment for one-half of the stock subscribed were received as follows: L. A. Arnold, $10,000.00; S. J. Moore, A. Y. Barnes, R. W. Lawson, and C. J. Barber, each $1,250.00. A certificate of stock for the 180 shares of stock accepted by Mr. Arnold in payment for his interest in the business has been issued.

Below the two journal entries required to record the authorized capital stock and the subscriptions, make a third journal entry to record the stock issued to L. A. Arnold in payment for his interest in the business and the goodwill; in this entry, debit L. A. Arnold Capital and Goodwill and credit Unissued Capital Stock. Enter the checks in the cash book. You will not be required to write the certificate of stock.

January 3

Paid M. F. Duff, attorney, $250.00 for legal service in connection with organizing the corporation and securing the charter.

Debit Organization Expense.

Prove cash (balance, $18,392.91) and post the entries in the cash book and general journal to the same ledger used in December.

QUESTIONS

1. What is the difference between a book of original entry and an auxiliary book?
2. What is the purpose of special columns in books of original entry?
3. What is the purpose of separate sales accounts?
4. Why is it necessary to provide special columns in the purchases journal and sales journal when separate sales and purchases accounts are maintained?
5. Why is the total of the Sales Discount column on the receipts side of the cash book, and the total of the Purchases Discount column on the payments side of the cash book, not used in proving cash?
6. To what accounts in the general ledger is the total of the Sales Discount column on the receipts side of the cash book posted? Why?
7. What effect will it have on the Trial Balance if the bookkeeper makes an error of $1.00 in adding the Purchases Discount column on the payments side of the cash book? Give reason for your answer.
8. What is the advantage of the notes receivable and notes payable journals?
9. If no Interest Earned column is provided in the notes receivable journal, what entry will be required if a customer does not receive credit for the full amount of the note because of the interest involved?
10. (a) Why does the bookkeeper reconcile his bank account with the statement rendered by the bank? (b) Describe, in detail, the method of making this reconciliation.

Chapter XXXI

GENERAL INFORMATION

The Purpose of this Chapter is to explain trade acceptances and the accounting procedure in connection therewith, collateral security, power of attorney, journal voucher, exhibits, schedules, analytical statements, method of numbering accounts, and basis for depreciation. The student of bookkeeping needs this information if he is to complete successfully the work required of him as a bookkeeper. As a business man, he will need this information so that he may interpret the reports submitted to him by the bookkeeping department.

§ 315. A Trade Acceptance as defined by the Federal Reserve Board is "a bill of exchange (time draft) drawn by the seller on the purchaser of goods sold, and accepted by such purchaser." As explained in §94, it is assumed that this acceptance is made on the date of purchase, or within a few days thereafter. The principal difference between the time draft and the trade acceptance is that the former is drawn and accepted at the expiration of the time of credit, with the purpose of giving additional time, while the latter is drawn and accepted at the time of the sale, or within a few days thereafter. The trade acceptance originated in Great Britain and the countries of Continental Europe where practically every commercial transaction is financed by means of a time draft. Its successful application in these countries has brought about a demand for its use in the United States, and this is being advocated by many leading business organizations.

TRADE ACCEPTANCE
FORM APPROVED BY THE
AMERICAN TRADE ACCEPTANCE COUNCIL
EMBRACING COMMITTEES OF
CHAMBER OF COMMERCE OF THE U. S. A.
AMERICAN BANKERS' ASSOCIATION
NATIONAL ASSOCIATION OF CREDIT MEN

No. 45 Cincinnati, Ohio, July 19 19

To Pemberton & Seaton Lexington, Ohio

On August 23 Pay to the order of Ourselves

One Hundred Seventy-five Dollars, ($ 175 00)

The obligation of the acceptor hereof arises out of the purchase of goods from the drawer. The drawee may accept this bill payable at any bank, banker or trust company in the United States which he may designate.

Accepted at Lexington (CITY) O (STATE) on July 24 19

Payable at Lexington National Bank (NAME OF BANK)

Pemberton & Seaton (SIGNATURE OF ACCEPTOR)

By Seaton

J. A. Whitney & Co.

By Whitney

Illustration No. 121, Trade Acceptance.

§ 316. The Purpose of a Trade Acceptance is (a) to provide a better evidence of the debt resulting from the sale of merchandise on account than the open book account; (b) to provide commercial paper that may be discounted by the seller; (c) to encourage prompt payment on the part of the purchaser.

¶ 1. *Open Book Account.* The open book account is the seller's record of his transactions with the buyer. It is the result of a business habit which has many disadvantages. It forces the seller to carry the financial burden of the buyer, and ties up the seller's invested or borrowed capital for an indefinite period. As

an asset, the open book account is neither quick nor sure. At best, book accounts are seldom available for a loan of more than 50% of their value. The book account being the seller's record of his transactions with the buyer, in case of dispute the burden of evidence is on the seller. As sales are often completed over the counter or telephone, it is sometimes difficult to prove the amount of the account. If each sale on account is closed by a trade acceptance, all of these disadvantages, and many more not enumerated, are eliminated and there is a clear understanding between the seller and the buyer as to the amount of the indebtedness, and the date of maturity.

¶ 2. *A Better Class of Collateral Security.* Borrowed capital is usually obtained by discounting notes properly executed by the business, or by discounting notes received from customers. The National Banking law very wisely limits the amount of the loans to be made to any one business by national banks, and practically all of the state banking laws now conform to the national law. This means that the business is limited as to the amount of money it can borrow on its own paper. Notes given the business by customers are usually for an extension of time, hence are not the best class of commercial paper, as a business with a high credit rating seldom has occasion to issue notes for maturing obligations. Since it is necessary for the business to become surety on notes discounted by it, the borrowing limit regulated by the banking laws affects the discounting of notes. The Federal Reserve Act creating Reserve banks has made the trade acceptance a preferred class of commercial paper which may be discounted to an unlimited extent by the business, and in no way affect the borrowing capacity in regard to its own or others' notes discounted. Reserve banks are permitted to go into the market and buy trade acceptances direct if member banks do not purchase and rediscount them. Being a preferred class of security, the trade acceptance gives the business a greater borrowing capacity and a smaller discount rate because the better the security, the less the interest charge.

¶ 3. *Prompt Payment.* One of the principal objections to the open book account is the ease with which the buyer can secure an extension of time. The seller is under obligation to the buyer as a customer and may be forced to extend the time of payment even though his better judgment would direct otherwise. The same also applies to the discount period where sales are made subject to a special discount for prompt payment. Many buyers will take advantage of the seller by allowing extra time to expire before sending remittance with the hope that the volume of business given the seller and the fear of losing a good customer will cause him to allow the discount even though the time has expired. If each sale on account is closed by a trade acceptance, these and many other annoying features will be removed, because the acceptances may be collected through the bank should they not be discounted. The average individual has a high regard for his credit rating with the bank and, as a rule, will pay an obligation maturing at the bank quicker than he will an open account.

§ 317. Accounting Procedure. When a sale is made, terms "trade acceptance," the seller records it in the sales journal in the same manner as a sale on account. A trade acceptance for the amount of the sale accompanies the sales invoice with a request for its acceptance on delivery. The buyer records the purchase in the purchases journal and the accepted trade acceptance in the same manner as an accepted draft or a note payable. When the seller receives the trade acceptance accepted by the buyer, it is recorded in the same manner as an accepted draft or a note receivable.

An accepted trade acceptance is the same as an accepted draft or a note. Trade acceptances received and issued by the business may be recorded in the Notes Receivable and in the Notes Payable accounts, or they may be recorded in a Trade Acceptances Receivable and a Trade Acceptances Payable account; the latter is considered the better practice.

§ 318. **A Power of Attorney** is written evidence of authority granted an individual to act as agent for another. One who acts as agent without a power of attorney may be held personally responsible for the contracts which he makes for his principal. Illustration No. 122 shows one form of power of attorney.

KNOW ALL MEN BY THESE PRESENTS, *That I, James C. Wilson, of the city of Boston, county of Suffolk, and state of Massachusetts, have made, constituted, and appointed, and by these presents do make, constitute and appoint Miss Margaret A. Davidson of the aforesaid city, county, and state, my true and lawful attorney, to act for me and in my name, place and stead, in the following transactions in connection with my business as retail clothing merchant.*

1. *To draw checks against my account in the Merchants National Bank.*

2. *To endorse checks, drafts, notes, or bills of exchange which may require my endorsement for deposit as cash or for collection in the said bank.*

3. *To accept drafts or bills of exchange which may be drawn on me by those from whom I have purchased merchandise.*

I hereby ratify and confirm all that the said attorney may lawfully do or cause to be done by virtue of this power of attorney.

IN WITNESS WHEREOF, *I have hereunto set my hand and seal this twenty-fifth day of May, in the year of our Lord one thousand nine hundred and twenty-three.*

(*Signed*) JAMES C. WILSON. [*Seal*]

Signed, sealed and delivered
in the presence of
PAUL WHITELAW. [*Seal*]

Illustration No. 122, Power of Attorney.

EXPLANATION. This contract authorizes Miss Margaret A. Davidson to sign certain contracts for James C. Wilson. It is necessary for Mr. Wilson to notify the bank that Miss Davidson is authorized to sign checks, and to file with it the form of signature to be used by her.

§ 319. **Collateral Security.** When money is loaned, the lender usually requires the borrower to give some evidence aside from his promise that he will pay the money at the time specified. This evidence is usually given in the form of security, which may be personal or collateral. Personal security is effected by the signature of the one who wishes to guarantee the obligation. Collateral security

$ 450.00 CINCINNATI, OHIO, June 21, 19

Thirty days After Date, FOR VALUE RECEIVED, the undersigned promise to pay to the order of

THE FIFTH-THIRD NATIONAL BANK, CINCINNATI, O

Four Hundred Fifty and no/100 - DOLLARS,

at The Fifth-Third National Bank of Cincinnati, in current funds, with interest at eight per cent. after maturity, having deposited herewith as collateral security for the payment of this and any other liability or liabilities of the undersigned to the holder or holders hereof, due or to become due, or which may hereafter be contracted or existing, the following property, viz.:

Five shares City National Bank stock.

Certificate No. 56 - Par value, $100.00

The market value of which is $ 560.00, with further right in the holder or holders hereof to call on the undersigned for additional security should there be a decline in said market value, and on failure to respond, this obligation shall be deemed to be due and payable at once without demand or notice. The undersigned hereby give to the holder or holders hereof a lien for the amount of all the liabilities aforesaid upon all of the property or securities at any time given unto or left in or coming into the possession of said Bank by the undersigned.

The undersigned also give to the holder or holders hereof full power and authority to sell or collect at the expense of the undersigned all or any part or portion thereof, at any place, either in the City of Cincinnati, Ohio, or elsewhere, at Public or Private Sale, at the option of said holder or holders on the non-performance of the above promise and at any time thereafter, and without advertising the same or otherwise giving to the undersigned any notice. In case of Public Sale, said holder or holders may purchase without being liable to account for more than the net proceeds of such sale.

It is further agreed that the provisions of this note shall also apply to any new or additional collateral, that if the undersigned shall become insolvent or make a general assignment for the benefit of creditors, or file a voluntary petition in bankruptcy, or if a petition in bankruptcy shall be filed against the undersigned, or a receiver shall be appointed of the property or assets, or any thereof, of the undersigned, then this note shall forthwith be due and payable, and that no delay on the part of the holder or holders hereof in exercising any rights hereunder shall operate as a waiver of said rights.

The maker and endorser severally waive presentment, demand for payment, protest, notice of protest, and notice of non-payment of this note.

Watson Bros. & Co.

P O Address 605 Madison Ave.

Per W. Watson, Pres.

(L-1)

Illustration No. 123, Collateral Note.

EXPLANATION. This note is the same form as the usual promissory note, except that space is provided for a description of the collateral security. The security attached to this note is five shares of City National Bank stock. This stock is not shown in the illustration, since the student is familiar with the form of a certificate of stock, through the preceding discussion.

is effected by placing the title to personal or real property, as guaranty for the payment of the obligation. The title to chattels and real estate is placed as collateral security by the use of a written document referred to as a "mortgage." The title to personal property other than chattels is placed as collateral security by the use of a collateral note; this class of personal property usually consists of written contracts such as stocks and bonds. Illustration No. 123 shows one form of collateral note. The security is attached to the note; if the collateral note is not paid at maturity, the holder sells the collateral and deducts from the proceeds of the sale, the amount of the indebtedness mentioned in the note.

§320. A Journal Voucher is the written authority for an entry in the general journal which is not supported by a business paper received in the usual course of business. Journal vouchers are used to support transfer entries and entries which affect the accounting records in different departments. Each journal voucher is signed by the person who is authorized to issue it. Illustration No. 124 shows one form of a journal voucher.

THE J. A. WHITNEY COMPANY, INC.

JOURNAL VOUCHER NO. *15*

JOURNAL PAGE *3* DATE *July 16,* 192

DEBIT: *Delivery Equipment*		*500*	*00*
CREDIT: *Unissued Capital Stock*		*500*	*00*

REMARKS: *Five shares of stock (par value $100.00) issued in payment for a used Reo truck for use in the delivery department.*

APPROVAL:

J. S. Martin — SECRETARY

J. A. Whitney — PRESIDENT

Illustration No. 124, Journal Voucher.

EXPLANATION. This journal voucher was issued by the president of the corporation, and authorizes the issue of five shares of capital stock in exchange for a delivery truck. Without this journal voucher, the stockholders of the corporation might question the correctness of the entry.

§ 321. An Exhibit, as applied to accounting, is a statement of material facts with reference to the financial condition of the business, presented in summarized form. The exhibits submitted to the board of directors usually consist of the Balance Sheet, Statement of Profit and Loss, and Analysis of the Surplus account. Exhibits are usually designated by letter, the Balance Sheet being Exhibit A, Statement of Profit and Loss, Exhibit B, and Analysis of the Surplus account, Exhibit C.

Exhibits should be brief and be condensed so as to provide a comprehensive view of the financial condition of the business. Details in regard to the facts set forth in each exhibit are given in schedules or analytical statements which accompany it.

§ 322. **A Schedule** is a detailed list showing the items which compose a total on the Balance Sheet or Statement of Profit and Loss, as a list of notes receivable, accounts receivable, merchandise in stock, etc. Schedules are usually numbered, and the number indicated on the Balance Sheet and Statement of Profit and Loss, as illustrated in Chapter XXXII.

§ 323. **An Analytical Statement** is a detailed analysis of the balance of an account on the Statement of Profit and Loss, as a list of the various expenditures which relate to the selling expenses, buying expenses, administrative expenses, etc. Each analytical statement is usually numbered, and the number indicated on the Statement of Profit and Loss.

§ 324. **Numbering Accounts.** In a business of material size, many accounts will be required to show the results of the transactions performed in the operations of the business. Reference to these accounts may be facilitated by giving each account a number according to its classification. The use of numbers to designate accounts can best be understood by a careful study of Illustration No. 125, in which the arrangement is based on the division of the accounts into three groups: (1) property accounts, (2) proprietorship accounts, and (3) revenue accounts.

1. **PROPERTY ACCOUNTS**

11. **Asset Accounts**

111. *Current Assets*
1111. Cash
1112. Notes Receivable
11102. Notes Receivable Discounted*
1113. Accounts Receivable
11103. Reserve for Doubtful Accounts
1114. Merchandise Inventory
1115. Accrued Interest Earned
112. *Fixed Assets*
1121. Office Equipment
11201. Reserve for Dep. of Office Equipment
1122. Store Fixtures
11202. Reserve for Dep. of Store Fixtures
1123. Delivery Equipment
11203. Reserve for Dep. of Delivery Equip.
1124. Building
11204. Reserve for Depreciation of Building
1125. Land
113. *Intangible Assets*
1131. Goodwill
1132. Patents
114. *Deferred Charges to Operation*
1141. Unexpired Insurance
1142. Prepaid Advertising
1143. Office Supplies
1144. Organization Expense

12. **Liability Accounts**

121. *Current Liabilities*
1211. Notes Payable
1212. Accounts Payable
1213. Accrued Interest Cost
1214. Accrued Wages
122. *Fixed Liabilities*
1221. Mortgages Payable
1222. Bonds Payable

2. **PROPRIETORSHIP ACCOUNTS**

21. Capital Stock
201. Unissued Capital Stock
202. Treasury Stock
22. Surplus
23. Reserve for Sinking Fund

3. **REVENUE ACCOUNTS**

31. **Income Accounts**

311. *Operating Income*
3111. Sales
31101. Sales Returns
31102. Sales Allowances
312. *Non-operating Income*
3121. Interest Earned
3122. Purchases Discount

32. **Expense Accounts**

321. *Operating Expense*
3211. Cost of Sales
32111. Purchases
321101. Purchases Returns
321102. Purchases Allowances
32112. Freight In
3212. Buying Expense
3213. Selling Expense
32131. Advertising
32132. Warehouse Expense
32133. Delivery Expense
32134. Freight Out
32135. Loss on Doubtful Accounts
32136. Sundry Selling Expenses
3214. Administrative Expense
32141. Building Expense
32142. Sundry Administrative Expenses
322. *Non-operating Expense*
3221. Interest Cost
3222. Sales Discount

*Zero preceding last digit indicates its opposite tendency.

Illustration No. 125, Numbering Accounts.

§ 325. Depreciation. Depreciation refers to the decrease in the value of fixed assets due to their use in the operations of the business and to the lapse of time (§ 127). Depreciation is not applicable to those assets which will be consumed in a short time, such as office supplies, advertising material, shipping room material, etc.; it is applicable only to fixed assets purchased for use in the business, which will decrease in value because of their use but which usually have some value no matter how long they may be used. It is necessary to record this decrease in value because it is one of the operating costs of the business. If not recorded from year to year, the Balance Sheet and Statement of Profit and Loss prepared at the end of each year will not show the true facts.

There are several methods for calculating depreciation, but the two most generally used are the "straight line" method and the "declining balance" method. With the straight line method, the asset is given a scrap value at the expiration of a designated number of years, and it is depreciated in equal amounts for each of these years between the time of purchase and the time it is to be scrapped. Thus if it is assumed that a typewriter which costs $100.00 will have a scrap (exchange) value of $25.00 at the end of five years, the depreciation for each year is $15.00; $100.00 cost, minus $25.00 exchange value, equals $75.00 depreciation; $75.00 divided by 5, the number of years, equals $15.00, depreciation each year; $15.00 depreciation on an investment of $100.00 is equivalent to a depreciation of 15%.

With the declining balance method, the depreciation is calculated on the value of the fixed asset at the end of each year. If it is assumed that the typewriter which cost $100.00 will be of service for five years, the depreciation for the first year would be $\frac{1}{5}$ of $100.00, or $20.00; the depreciation for the second year would be $\frac{1}{5}$ of $80.00, or $16.00; the depreciation for the third year would be $\frac{1}{5}$ of $64.00, or $12.80, the depreciation for the fourth year would be $\frac{1}{5}$ of $51.20, or $10.24; the depreciation for the fifth year would be $\frac{1}{5}$ of $40.96, or $8.19; the scrap value at the end of five years being $32.77.

Depreciation should be shown on the Balance Sheet and on the Statement of Profit and Loss. It is shown on the Balance Sheet as a deduction from the cost value of the assets; it is shown on the Statement of Profit and Loss through the increase in the operating expense accounts affected by the use of the fixed assets. The depreciation shown on the Balance Sheet and Statement of Profit and Loss is the result of its being recorded in the general journal and posted to the accounts in the ledger.

It is not practical to show the exact amount of the depreciation on each fixed asset no matter which method may be used. The reason for this is that it is not within the human mind to fix an exact future value on property which is to be used in the business, and to determine in advance the amount of the depreciation that will occur from year to year through the use of the property. The purpose of recording depreciation is to take out of the profit of each year the estimated decrease in the value of the fixed assets through their use in the operations of the business. The facts gained for recording depreciation are based on estimation only. While they may not be exact, yet they will enable the management to know the approximate value of fixed assets, in case this information is needed in the adjustment of fire loss. It also makes possible the distribution of losses which are constantly occurring but the amount of which will not be known until it is necessary to replace the fixed assets.

§ 326. Turnover refers to the number of times the capital invested in a given class of merchandise will be reinvested in the same class of goods because of sales in excess of original inventory value. The butcher will turn over the fresh meat which he buys and sells more rapidly than the piano merchant will turn over the pianos which he buys and sells. A turnover of ten times applicable to a certain class of merchandise, means that the merchant buys and sells this class of merchandise ten times each year.

The method of determining turnover is explained and illustrated in Commercial Arithmetic, hence it is not necessary to discuss it in detail here. The method most popular with merchants is to divide the cost of the goods sold during the year by the average inventory (at cost) for the year. Applying this rule to the Statement of Profit and Loss in Illustration No. 131, the turnover would be 3.25; this is arrived at as follows: beginning inventory, $14,606.05; closing inventory, $31,261.78; cost of goods sold, $74,626.50. $14,606.05+$31,261.78=$45,867.83. $45,867.83÷2=$22,933.915, average inventory at cost for year. $74,626.50÷$22,933.915=3.25, turnover.

Exercise No. 100, Trade Acceptance

May 19 the Fillmore Music Company of Denver, Colorado, placed an order with the John Church Company of Cincinnati, Ohio, for five hundred songbooks No. 387. May 25 these books were shipped by express and billed at 62c per copy; terms, 3% trade acceptance at sixty days. May 28 the Fillmore Music Company received the invoice and entered it in its purchases journal, holding the trade acceptance until the merchandise was delivered. May 31 the music books were received, and the trade acceptance accepted and mailed to the John Church Company. June 3 the John Church Company received the trade acceptance and instructed the bookkeeper to record it.

Record in journal form the entry made by the John Church Company when the order was filled, the entry made by the Fillmore Music Company when the invoice was received, the entry made by the Fillmore Music Company when the trade acceptance was accepted, and the entry made by the John Church Company when the trade acceptance was received, assuming that each concern keeps accounts with Trade Acceptances Receivable and Trade Acceptances Payable.

Exercise No. 101, Journal Vouchers

The following transactions were recorded by the bookkeeper for the R. H. Donnelly Corporation and supported by journal vouchers:

Oct. 27. Mays Bros. & Minot, a customer, report merchandise received in bad condition, and the salesman in their territory requests that they be allowed credit for $62.50.

30. At the close of the fiscal period, the sales manager requests that $216.50 debited to the Delivery Expense account, which shows a sales cost, be debited to the Freight In account because this amount applies to the cost of hauling merchandise purchased from the station to the warehouse by the delivery equipment.

Nov. 9. The attorney for the corporation reports that the account with Jeffries & Son, which is long past due, is uncollectible, and the credit manager instructs that its balance, $61.85, be closed into the Reserve for Uncollectible Accounts account.

18. The president authorizes the sale of ten shares of common stock (par value, $100.00) to Y. S. Underwood at $95.00 per share and the acceptance in payment of this his sixty-day note for this amount, dated today, with interest at 6% from date.

Make each of the above entries in journal form and prepare the journal voucher (Illustration No. 124) which would support it; select your own names for the officers authorizing the issue of the journal vouchers and indicate the title of each.

Exercise No. 102, Depreciation

Make, in journal form, the entries for the following transactions relating to a Packard truck purchased by the Haggard Drug Company; post the entries affecting the Delivery Equipment and Reserve accounts.

Jan. 2, 1919. Purchased for $3,500.00 cash a Packard truck to be used in delivering merchandise.

Dec. 31, 1919. Recorded an estimated depreciation on the truck of 12½% of cost.

Nov. 6, 1920. Paid $60.00 for a new tire to replace a worn tire on the truck.

Dec. 31, 1920. Recorded an estimated depreciation on the truck of 12½% of cost.

April 13, 1921. Paid $197.60 for storage and repairs on truck.

Dec. 31, 1921. Recorded an estimated depreciation on the truck of 12½% of cost.

Mar. 17, 1922. The truck was badly damaged in a collision with a street car. Brought suit against the street car company for $1,500.00 damages.

May 8, 1922. Paid $1,054.65 for repairs on the damaged truck.

Debit Loss on Damaged Truck.

July 7, 1922. Collected $1,000.00 damages from the street car company; the street car company paid the costs of the suit.

Dec. 31, 1922. Recorded an estimated depreciation on the truck of 12½% of cost.

Feb. 1, 1923. Gave the old truck and our check for $2,750.00 in full payment for a new truck, cost price $3,750.00.

Debit Adjustment of Errors in Previous Periods account for the difference between the reserve for depreciation and the amount allowed on the old truck. This account is debited because, if the reserve for depreciation set up during the four previous years had been sufficient, the profit for each of these years would have been correspondingly less, hence the Surplus account (§ 271, ¶ 3), which shows the accumulated profits, would have been less.

QUESTIONS

1. (a) What are the advantages of a trade acceptance? (b) the disadvantages?
2. Can you explain by example the three classes of security usually given as guarantee for the payment of obligations?
3. When merchandise is sold on account, what guarantee does the merchant have that he will collect the amount of the sale when it is due?
4. (a) When should a bookkeeper require a power of attorney? (b) When is a power of attorney not essential to the work of a bookkeeper?
5. (a) What is the purpose of a journal voucher? (b) Why should a journal voucher be filed?
6. (a) What is the connection between an exhibit, a schedule, and an analytical statement? (b) How is each used in connection with the preparation of reports?
7. What is the advantage of numbering accounts, and using numbers in addition to the titles of the accounts?
8. What is depreciation?
9. What is the difference between the straight line and the declining balance method of determining the amount of the depreciation?
10. What is turnover?

Chapter XXXII

WORKING SHEET, ADJUSTING ENTRIES AND REPORTS

The Purpose of this Chapter is to explain by means of illustrations the work required of the bookkeeper or accountant at the close of a fiscal period. The illustrations provide a model set with the books of original entry and accounts omitted. The illustrations are prepared from the general ledger of a business owned and operated by a corporation, but are applicable to a business owned and operated by an individual or by partners, the only exception being the method of showing the proprietorship.

§ 327. **The Working Sheet** is a ruled form used by the bookkeeper or accountant in the preparation of the Balance Sheet and Statement of Profit and Loss. It contains space ruled for the names of the accounts in the ledger, and eight or more amount columns for the Trial Balance, adjustments, Balance Sheet, and Statement of Profit and Loss. The purpose of the Working Sheet is to ascertain the net profit before preparing the Balance Sheet and Statement of Profit and Loss. The Working Sheet is prepared from the Trial Balance taken at the end of the fiscal period and the entries for the inventories, accruals, and reserves.

The Working Sheet and its use in connection with the work required at the close of a fiscal period are best explained by illustrations. The illustrations which follow consist of (a) the Trial Balance taken at the close of the fiscal period, (b) a list of inventories, accruals, and reserves, (c) the adjusting entries for these in journal form, (d) the Working Sheet, (e) the Balance Sheet, (f) the Statement of Profit and Loss, (g) the closing entries in two forms, (h) the post-closing entries, and (i) the post-closing Trial Balance.

§ 328. **Preparation of the Working Sheet.** The Working Sheet is completed by (a) copying the Trial Balance in the first two columns, (b) posting the adjusting entries from the journal to the adjustment columns on a line with the accounts affected, (c) extending the balances on the Trial Balance and the amounts in the adjustment columns into the asset, liability, cost, and income columns, and (d) proving the results. If all the merchandise purchased had been sold and there were no accruals or reserves, the Working Sheet would be prepared by extending the balances on the Trial Balance into the proper columns at the right; inventories, accruals and reserves affect the accounts on the Trial Balance according to their nature, and such items must be considered when extending the balances.

§ 329. **Copying the Trial Balance.** The Working Sheet should be provided with a sufficient number of horizontal lines for all the accounts in the general ledger and additional lines for new accounts made necessary through posting the adjusting entries. After the Trial Balance has been copied in the first two columns at the left, the results should be audited and both columns added to detect errors in copying.

J. A. WHITNEY & CO.

TRIAL BALANCE, DECEMBER 31, 192

1	Merchants National Bank	10496	30		
2	Petty Cash	50	00		
3	Notes Receivable	3338	99		
4	Notes Receivable Discounted			350	00
5	Accounts Receivable	10997	99		
6	Reserve for Doubtful Accounts Receivable			112	86
7	Subscribers to Capital Stock	750	00		
8	Cherry Street Property	2250	00		
9	Office Equipment	500	00		
10	Reserve for Depreciation of Office Equip.			27	25
11	Store Fixtures	350	00		
12	Reserve for Depreciation of Store Fixtures			17	75
13	Delivery Equipment	2018	00		
14	Reserve for Depreciation of Delivery Equip.			110	72
15	Building	3000	00		
16	Reserve for Depreciation of Building			300	00
17	Land	1500	00		
18	Goodwill	5063	43		
19	Office Supplies	246	28		
20	Advertising Material	610	05		
21	Warehouse Material	523	16		
22	Insurance	219	05		
23	Notes Payable			6014	28
24	Accounts Payable			19983	02
25	Capital Stock			50000	00
26	Unissued Capital Stock	10000	00		
27	Subscriptions to Capital Stock			1000	00
28	Treasury Stock	500	00		
29	Surplus			6806	86
30	Sales			108961	52
31	Sales Returns	301	21		
32	Sales Allowances	120	11		
33	1922 Inventory	14606	05		
34	Purchases	85837	52		
35	Freight In	5614	03		
36	Purchases Returns and Allowances			169	32
37	Branch Store	10920	79	3373	52
38	Selling Expense	3887	13		
39	Salaries in Selling Department	5567	39		
40	Advertising Expense	3293	56		
41	Traveling Expense	7480	65		
42	Warehouse Expense	2393	45		
43	Delivery Expense	2152	40		
44	Freight Out	43	85		
45	Administrative Expense	2143	15		
46	Building Expense	1075	00		
47	Interest Earned			86	80
48	Purchases Discount			568	09
49	Cherry Street Property Revenue			197	50
50	Profit on Sale of Stock			85	00
51	Interest Cost	138	48		
52	Sales Discount	166	47		
		198154	49	198154	49

Illustration No. 126, Trial Balance at Close of Fiscal Period.

EXPLANATION. This Trial Balance was prepared from the ledger of J. A. Whitney & Co., an incorporated concern, at the close of a business year. The account with Cherry St. Property shows the value of real estate purchased from a customer to effect the settlement of his account without legal proceedings; it is carried on the ledger of the corporation as an asset to be sold, and not as one to be used in the business.

*

§ 330. Entries in the Adjustment Columns. The adjustment columns are provided because each inventory, accrual or reserve affects two accounts, one or both of which may be in the ledger. The journal entries for these inventories, accruals, and reserves are posted to the adjustment columns on the Working Sheet in the same manner as they will be posted to the accounts in the ledger after the net profit for the period has been ascertained through the Working Sheet.

The posting of the entries in Illustration No. 128 to the adjustment columns of the Working Sheet in Illustration No. 129 can best be understood by comparing the two illustrations and tracing the posting. The first journal entry is to record the merchandise inventory at the close of the period. This is posted to the credit adjustment column on a line with Purchases, and to the debit adjustment column on a line with 1923 Inventory. (The year "1923" is used to distinguish the new inventory from the old inventory which is designated as "1922.") The second entry is to record the branch store inventory, and is posted in the same manner except that the amounts are entered in the debit and credit adjustment columns on a line with the accounts affected. It will be observed that in both cases new accounts are necessary for the debit entries because the purpose of each entry is to record an asset which does not appear in the ledger. The other entries are posted in the same manner; the numbers at the left in Illustration No. 128 indicate the lines on the Working Sheet on which the amounts are entered.

When more than one entry affects the debit or credit of an account on the Trial Balance, it is necessary to interline the amounts in the adjustment columns as in the illustration.

J. A. WHITNEY & CO.

INVENTORIES, ACCRUALS AND RESERVES, DECEMBER 31, 192

Merchandise Inventory, December 31, 1923					31261	78
Branch Store Inventory, December 31, 1923					9127	65
Accruals:						
Interest on notes and accounts receivable			14	93		
December rent on Cherry Street property			27	50	42	43
Interest on notes payable			69	45		
December rent on warehouse			150	00		
Branch Store payroll for five days			135	42		
Expenses of traveling salesman to the 31st			87	65		
Garage service for December			122	50		
Taxes on Cherry Street property			67	50	632	52
Deferred Charges to Operation:						
Office supplies on hand			82	65		
Advertising material on hand			119	65		
Warehouse material on hand			63	75	266	05
Insurance Unexpired:						
Total premiums paid			219	05		
Expirations:						
Office Equipment	4.05					
Store Fixtures	3.12					
Delivery Equipment	17.33					
Merchandise	60.36					
Building	24.38					
Cherry Street Property	18.56		127	80	91	25
Reserves:						
Office Equipment, 3%			15	00		
Store Fixtures, 3%			10	50		
Delivery Equipment, 4%			80	72		
Building, 5%			150	00	256	22
Doubtful Accounts Receivable:						
One tenth of 1% of Net Sales					108	56

Illustration No. 127, Inventories, Accruals and Reserves.

EXPLANATION. The value of the merchandise on hand at the main store and the value of the assets on hand at the branch store are each ascertained by a physical inventory. The amount of each accrual, deferred charge and reserve is ascertained by the bookkeeper from his records.

December 31, 192

53	1923 Inventory	3126178	
34	Purchases		3126178
	Mdse inventory at the close of the fiscal period		
	31		
54	1923 Branch Store Inventory	912765	
37	Branch Store		912765
	Assets on hand at the branch store at the close of the fiscal period		
	31		
55	Accrued Interest Earned	1493	
56	Accrued Rent on Cherry St. Property	2750	
47	Interest Earned		1493
49	Cherry St. Property Revenue		2750
	Accrued assets per schedule		
	31		
51	Interest Cost	6945	
42	Warehouse Expense	150	
37	Branch Store	13542	
41	Traveling Expense	8765	
43	Delivery Expense	12250	
8	Cherry St. Property Revenue	6750	
57	Accrued Interest Cost		6945
58	Accrued Warehouse Rent		150
59	Accrued Wages-Branch Store		13542
60	Accrued Traveling Expense		8765
61	Accrued Garage Expense		12250
62	Accrued Taxes-Cherry St. Prop		6750
	Accrued liabilities per schedule		
	31		
45	Administrative Expense	16363	
40	Advertising Expense	49040	
42	Warehouse Expense	45941	
19	Office Supplies		16363
20	Advertising Material		49040
21	Warehouse Material		45941
	Material used during the period		

Illustration No. 128, Adjusting Entries (Continued).

December 31, 192

40	Administrative Expense	405	
38	Selling Expense	6348	
43	Delivery Expense	1733	
46	Building Expense	2438	
49	Cherry St. Property Revenue	1856	
22	Insurance		12780
	Expired insurance per schedule .31		
40	Administrative Expense	15	
38	Selling Expense	1050	
43	Delivery Expense	8072	
46	Building Expense	150	
63	Loss on Doubtful Accts. Rec.	10856	
10	Res. for Dep. of Office Equip.		15
12	Res. for Dep. of Store Fixtures		1050
14	Res. for Dep. of Del Equip		8072
16	Res. for Dep. of Building		150
6	Res. for D'btful Accts. Rec.		10856
	Reserves per schedule		

Illustration No. 128, Adjusting Entries (Concluded).

EXPLANATION. These entries were prepared from the list of inventories, accruals and reserves in Illustration No. 127. The year is given in connection with the two inventories to distinguish these from the 1922 inventories which are recorded in the ledger. The Cherry St. Property Revenue account is credited for the rent which has not yet been collected, because this account shows the income from the property; this account is debited with the accrued taxes because the cost of these taxes reduces the income from rent. The entries to record the deferred charges, which include materials in stock and unexpired insurance, transfer the cost of materials used and insurance expired to the proper operating accounts so that the balance of each account which is to show a deferred charge will be the value of the asset.

§ 331. Extensions on the Working Sheet. Each account on the Trial Balance shows an asset, a liability, a cost or an income, hence the balance will be extended in one of the four columns at the right of the adjustment columns. A careful study of the extensions on the Working Sheet, Illustration No. 129, will show the method of arriving at the amount to be entered in the asset, liability, cost or income columns. It will be observed that each amount in the debit adjustment column is added to the debit side of the account it affects, and each amount in the credit column is added to the credit side of the account it affects.

§ 332. Results of the Extensions. After all the adjusted balances have been extended into the four columns at the right, all the columns on the Working Sheet including the Trial Balance are added, and the totals entered in small pencil figures as in Illustration No. 129. The totals of the debit and credit columns on the Trial Balance will be equal because equal debits and credits have been recorded in the ledger, and a Trial Balance is a list of the open accounts in the ledger. The totals of the debit and credit adjustment columns will be equal because these two

(*Concluded on page 310*)

C. G. Whitney & Co
Working Sheet, December 31, 192-

		Trial Balance Dr.	Trial Balance Cr.	Adjustments Dr.	Adjustments Cr.	Balance Sheet Assets	Balance Sheet Liabilities	Profit and Loss Cost	Profit and Loss Income
1	Merchants Nat'l Bank	10496 30				10496 30			
2	Petty Cash Fund	50				50			
3	Notes Receivable	3335 99				3335 99			
4	Notes Rec Discounted		350				350		
5	Accounts Receivable	10997 99				10997 99			
6	Res for Dbt Accts Rec		112 56		105 56		221 42		
7	Subscribers to Cap Stock	750				750			
8	Cherry St Property	2250				2250			
9	Office Equipment	500				500			
10	Res for Dep of Off. Eq		27 25		15		42 25		
11	Store Fixtures	350				350			
12	Res for Dep of Store Fixt		17 75		10 50		28 25		
13	Delivery Equipment	2015				2015			
14	Res for Dep of Del Eq		110 72		80 72		191 44		
15	Building	3000				3000			
16	Res for Dep of Building		300		150		450		
17	Land	1500				1500			
18	Good Will	5063 43				5063 43			
19	Office Supplies	246 25			163 63	82 65			
20	Advertising Material	610 05			490 40	119 65			
21	Warehouse Material	523 16			459 41	63 75			
22	Insurance	219 05			127 50	91 25			
23	Notes Payable		6014 28				6014 28		
24	Accounts Payable		1995 302				1995 302		
25	Capital Stock		50000				50000		
26	Unissued Capital Stock	10000				10000			
27	Subscriptions to Cap Stock		1000				1000		
28	Treasury Stock	500				500			
29	Surplus		6806 86				6806 86		
30	Sales		108981 52						108981 52
31	Sales Returns	301 21						301 21	
32	Sales Allowances	120 11						120 11	
33	1922 Inventory	14606 05						14606 05	
34	Purchases	85837 52			31261 78			85837 52	31261 78
35	Freight In	5614 03						5614 03	
36	Pur Returns and Allow		169 32						169 32
37	Branch Store	10920 79	3373 52	135 42	4127 65				1444 96
38	Selling Expense	3887 13		63 43 10 50				3961 11	
39	Salaries in Selling Dept	5567 39						5567 39	
40	Advertising Expense	3293 56		490 40				3753 96	
41	Traveling Expense	7480 65		87 65				7568 30	
42	Warehouse Expense	2393 45		1 50 459 41				3062 36	
43	Delivery Expense	2152 46		12 50 80 72				2372 98	
44	Freight Out	43 85						43 85	
45	Administrative Expense	2143 15		163 63 13 24 31				2325 33	
46	Building Expense	1075		1 50				1249 35	
47	Interest Earned		86 50		14 93				101 43
48	Purchases Discount		568 09						568 09
49	Cherry St Prop Revenue		197 50	67 50 18 56	27 50				135 94
50	Profit on Sale of Stock		85						85
51	Interest Cost	138 45		69 45				207 90	
52	Sales Discount	166 47						166 47	
	Carried Forward	195154 49	195154 49	2129 98	42037 38	51172 01	35057 52	136725 95	142751 31

Illustration No. 129, Working Sheet (Continued).

Working Sheet, Dec. 31, 192 (Concluded)

		Trial Balance Dr.	Trial Balance Cr.	Adjustments Dr.	Adjustments Cr.	Balance Sheet Assets–Liabilities	Balance Sheet Assets–Liabilities	Profit and Loss Cost–Income	Profit and Loss Cost–Income
✓	Brought Forward	198154 49	198154 49	212995	420373 38	511720	350752	13672899	14275134
53	1923 Inventory			312617 8		312617 8			
54	1923 Branch Store Inv.			91276 5		91276 5			
55	Accrued Interest Earned			14 93		14 93			
56	Acc. Rent on Cherry St. Prop.			27 50		27 50			
57	Accrued Interest Cost				69 45		69 45		
58	Accrued Warehouse Rent				1 50		1 50		
59	Accrued Wages–Br. Store				135 42		135 42		
60	Accrued Traveling Expense				87 65		87 65		
61	Accrued Garage Expense				122 50		122 50		
62	Accrued Taxes–Cherry St. Prop.				67 50		67 50		
63	Loss on Dbt. Accts. Rec.			108 56				108 56	
		198154 49	198154 49	426704 38	426704 38	916038 7	356904	13683751	14275134
	Net Income						59138 3	591383	
						916038 7	916038 7	14275134	14275134

Illustration No. 129, Working Sheet (Concluded).

EXPLANATION. This Working Sheet was prepared from the Trial Balance, Illustration No. 126, and the adjusting entries, Illustration No. 128. The student should check each amount in the Adjustments columns with the journal entries in the illustration in the same manner as checking the posting from a book of original entry to the ledger. When this is completed, he should check the extensions in the Balance Sheet and Profit and Loss columns. Where two or more amounts are entered opposite the name of an account, the total of these amounts is used in making the extension. Pencil check marks should be placed at the right of each amount on the Working Sheet as the checking is completed, in order that the student may know that he has completed all the work required in connection with the preparation of the Working Sheet. The years "1922" and "1923" are used to distinguish between the "old" and "new" inventories (§ 330).

(*Continued from page 308*)

columns are the result of posting journal entries in which debits and credits are equal. The totals of the asset and liability columns will not be equal unless the business has been operated without a profit or loss. The difference between the total of the asset column and the total of the liability column (with the capital accounts as liabilities) will be the net profit or net loss; if the assets are greater than the liabilities, the business has been operated at a profit, and if the liabilities are greater than the assets, the business has been operated at a loss. The totals of the cost and income columns will not be equal unless the business has been operated without a profit or a loss; if the total of the cost column is the greater, the business has been operated at a loss, and if the total of the income column is the greater, it has been operated at a profit. The difference between the total of the asset column and the total of the liability column will be the same as the difference between the total of the cost column and the total of the income column because the net assets will have increased the same amount as the net profit, or the net assets will have decreased the same amount as the net loss.

The purpose of the Working Sheet is to ascertain the net profit or net loss resulting from operating the business during a fiscal period; this purpose is accomplished when the difference between the assets and liabilities is the same as the difference between the cost and income. When the results do not prove, it is necessary to audit the work to ascertain the error or errors. It is necessary for the one making the extensions to distinguish between an asset and a cost, and a liability and an income, because an error resulting from a liability extended as an income, or a cost extended as an asset will not be detected through a comparison of the net profit shown by the difference between the assets and liabilities, and the difference between the cost and income.

Exhibit A

J. A. WHITNEY & CO.

BALANCE SHEET, DECEMBER 31, 192

Current Assets:							Current Liabilities:					
Cash in Merchants National Bank	10496.30						Notes Payable, Schedule 3			6014	28	
Petty Cash Fund	50.00	10546	30				Accounts Payable, Schedule 4			19953	02	
Notes Receivable, Schedule 1	3338.99						Accrued Interest Cost			69	45	
Less Notes Receivable Discounted	350.00	2988	99				Accrued Warehouse Rent			150	00	
Accounts Receivable, Schedule 2	10997.99						Accrued Wages, Branch Store			135	42	
Less Reserve for Dbt. Accts. Rec.	221.42	10776	57				Acorued Traveling Expense			87	65	
Mdse. Inventory, Main Store, Dec. 31, 1923		31261	78				Accrued Garage Expense			122	50	
Inventory, Branch Store, Dec. 31, 1923		9127	65				Accrued Taxes, Cherry Street Property			67	50	
Accrued Interest Earned		14	93				Total Current Liabilities					26599	82
Accrued Rent on Cherry Street Property		27	50										
Subscribers to Capital Stock		750	00				Proprietorship:					
Cherry Street Property		2250	00				Capital Stock			50000	00		
Total Current Assets				67743	72		Less Unissued Capital Stock	10000.00					
							" Treasury Stock	500.00		10500	00		
Fixed Assets:							Capital Stock Outstanding			39500	00		
Office Equipment	500.00						Subscriptions to Capital Stock			1000	00		
Less Reserve for Depreciation	42.25	457	75				Total Stock Outstanding and Subscribed			40500	00		
Store Fixtures	350.00						Add Surplus			12720	69		
Less Reserve for Depreciation	28.25	321	75				Total Proprietorship					53220	69
Delivery Equipment	2018.00												
Less Reserve for Depreciation	191.44	1826	56										
Building	3000.00												
Less Reserve for Depreciation	450.00	2550	00										
Land		1500	00										
Total Fixed Assets				6656	06								
Goodwill				5063	43								
Total Assets				79463	21								
Deferred Charges to Operation:													
Office Supplies on Hand		82	65										
Advertising Material on Hand		119	65										
Warehouse Material on Hand		63	75										
Insurance Unexpired		91	25										
Total Deferred Charges to Operation				357	30								
Total Assets and Deferred Charges				79820	51		Total Liabilities and Proprietorship					79820	51

Illustration No. 130, Balance Sheet, in "Account Form" for a Corporation.

EXPLANATION. This Balance Sheet was prepared from the asset and liability columns of the Working Sheet, Illustration No. 129. The proprietorship shown on the Balance Sheet is the capital at the close of the period, plus the profit, which is the difference between the asset and liability columns on the Working Sheet.

Exhibit B

J. A. WHITNEY & CO.

STATEMENT OF PROFIT AND LOSS FOR PERIOD ENDING DECEMBER 31, 192

Returns from Sales:					
Gross Sales				108981	52
Deduct Sales Returns		301	21		
" Sales Allowances		120	11	421	32
Net returns from merchandise sold				108560	20
Cost of Merchandise Sold:					
1922 Inventory	14606.05				
Add Purchases	85837.52				
" Freight In	5614.03	106057	60		
Deduct Purchases Returns and Allowances		169	32		
Net cost of merchandise purchased		105888	28		
Deduct 1923 Inventory		31261	78		
Net cost of merchandise sold				74626	50
Gross Profit on Sales				33933	70
Branch Store:					
Net Profit per Schedule 5				1444	96
Gross Profit from Operations				35378	66
Operating Expenses:					
Selling Expenses:					
Selling Expense	3961.11				
Salaries in Selling Department	5567.39				
Advertising Expense	3783.96				
Traveling Expense	7568.30				
Warehouse Expense	3002.86				
Delivery Expense	2372.95				
Freight Out	43.85				
Loss on Doubtful Accounts Rec.	108.56	26408	98		
Administrative Expenses:					
Administrative Expense	2325.63				
Building Expense	1249.38	3575	21		
Total Operating Expenses				29984	19
Net Profit from Operations				5394	47
Other Income:					
Interest Earned		101	73		
Purchases Discount		568	09		
Cherry Street Property Revenue		138	94		
Profit on Sale of Stock		85	00		
Total Other Income				893	76
Gross Income				6288	23
Deductions from Income:					
Interest Cost		207	93		
Sales Discount		166	47		
Total Deductions from Income				374	40
Net Income Carried to Surplus				5913	83

Illustration No. 131, Statement of Profit and Loss for a Corporation.

EXPLANATION. This Statement of Profit and Loss was prepared from the cost and income columns on the Working Sheet, Illustration No. 129.

CLOSING ENTRIES

The closing entries are prepared from the Statement of Profit and Loss. The purpose is to close all cost and income accounts and to transfer the net profit or loss to the Surplus account. These entries may be made in one of two forms. With one form, the profit on sales is closed into the Profit and Loss account through the Sales account and with the other, the costs affecting the sales and the returns from sales are closed into one division of the Profit and Loss account

December 31, 192

Sales		421 32	
Sales Returns			301 21
Sales Allowances			120 11
To close the Sales Returns and Sales Allowances accounts			
31			
Purchases		2022 08	
1922 Inventory			1466 05
Freight In			561 03
To close the 1922 Inventory and Freight In accounts			
31			
Purchases Returns and Allowances		169 32	
Purchases			169 32
To close the Purchases Returns and Allowances account			
31			
Sales		7462 50	
Purchases			7462 50
To close the Purchases account			
31			
Sales		3393 70	
Profit and Loss			3393 70
To close the Sales account			
31			
Branch Store		144 96	
Profit and Loss			144 96
To close the Branch Store account			

Illustration No. 132, Closing Entries with Profit on Sales Closed Through the Sales Account (Continued).

These entries were prepared from the Statement of Profit and Loss in Illustration No. 131. The method of closing is the same as that explained in preceding chapters. The gross profit on sales is closed into the Profit and Loss account through the Sales account. When these entries are posted, the accounts which appear on the Statement of Profit and Loss will be in balance.

December 31, 192

Profit and Loss		29984	19	
Selling Expense				39611
Salaries in Selling Dept				55673
Advertising Expense				37839
Traveling Expense				75683
Warehouse Expense				30086
Delivery Expense				23729
Freight Out				4385
Loss on Dbtful Accts Rec				10856
Administrative Expense				23258
Building Expense				12493
To close the operating expense accounts				
31				
Interest Earned		1017	3	
Purchases Discount		5680	9	
Cherry St. Property Revenue		1389	4	
Profit on Sale of Stock		85		
Profit and Loss				8937
To close the non-operating income accounts				
31				
Profit and Loss		3744	0	
Interest Cost				2079
Sales Discount				1664
To close the non-operating expense accounts				
31				
Profit and Loss		5913	83	
Surplus				591383
To close the Profit and Loss account				

Illustration No. 132, Closing Entries with Profit on Sales Closed Through the Sales Account (Concluded).

and the operating and non-operating costs and non-operating income are closed into another division of this account. Illustration No. 132, on pages 313 and 314 shows the entries necessary to close all cost and income accounts through one division of the Profit and Loss account; these entries are the same as those discussed in preceding chapters. Illustration No. 133 shows the Profit and Loss account resulting from posting these entries. Illustration No. 134 shows the necessary post-closing entries. Illustration No. 135, on pages 316 and 317, shows the form of entries when two divisions of the Profit and Loss account are to be used, and Illustration No. 136 shows the Profit and Loss account with the two divisions resulting from posting these entries. A comparison of the two methods will show that the final results are the same. However, the Profit and Loss account

with the two divisions shows information which cannot be obtained readily from the account when only one division is used. Thus if a comparison between sales and returned sales, sales allowances, purchases, or freight cost is desired, the information can be obtained from the Profit and Loss account with the two divisions without referring to the various ledger accounts.

Profit and Loss

192						192					
Dec.	31	Selling Expense	J8	3961 11		Dec.	31	Profit on Sales	J8	33933 70	
		Salaries in S. D.	J8	5567 39				Branch Store	J8	1444 96	
		Advt. Expense	J8	3783 96				Interest Earned	J9	101 73	
		Trav. Expense	J8	7568 30				Pur. Discount	J9	568 09	
		Warehouse Exp.	J8	3002 86				Cherry St. Prop. Rev.	J9	139 94	
		Del. Expense	J8	2372 95				Sale of Stock	J9	85	
		Freight Out	J8	43 85						36272 42	
		Loss on D. Accts.	J8	108 56							
		Adms. Expense	J8	2325 83							
		Bldg. Expense	J8	1249 38							
		Interest Cost	J9	207 93							
		Sales Discount	J9	166 47							
		Surplus	J9	5913 83							
				36272 42						36272 42	

Illustration No. 133, Profit and Loss Account.

EXPLANATION. This account shows the Profit and Loss account after the entries in Illustration No. 132 have been posted.

December 31, 192

Branch Store		912 65	
1923 Branch Store Inventory			912 65
To close the 1923 Branch Store Inventory account.			
31			
Interest Earned		14 93	
Accrued Interest Earned			14 93
To close the Accrued Interest Earned account			
31			
Accrued Interest Cost		69 45	
Interest Cost			69 45
To close the Accrued Interest Cost account			

Illustration No. 134, Post-closing Entries.

EXPLANATION. The purpose of these entries is to close the 1923 Branch Store Inventory account and those accounts with accruals which will not be canceled by payment at an early date.

December 31, 192

Sales			10898152	
Purchases Returns and Allowances			16932	
Profit and Loss				10915084
Profit and Loss			7521714	
Sales Returns				30121
Sales Allowances				12011
1922 Inventory				1460605
Purchases				5457574
Freight In				561403
To close the trading accounts				
31				
Branch Store			144496	
Profit and Loss				144496
To close the Branch Store account				
31				
Profit and Loss			2998419	
Selling Expense				396111
Salaries in Selling Dept				556739
Advertising Expense				378396
Traveling Expense				756830
Warehouse Expense				300286
Delivery Expense				237295
Freight Out				4385
Loss on Outputs Accts Rec				10856
Administrative Expense				232583
Building Expense				124938
To close the operating expense accounts				
31				
Interest Earned			10173	
Purchases Discount			56809	
Cherry St Property Revenue			13894	
Profit on Sale of Stock			85	
Profit and Loss				89376
To close the non-operating income accounts				

Illustration No. 135, Closing Entries Through Division of the Profit and Loss Account (Continued).

December 31, 192

	Profit and Loss		6288 23	
	Interest Cost			20793
	Sales Discount			16647
	Surplus			591383
	To close the non-operating expense accounts and the Profit and Loss account			

Illustration No. 135, Closing Entries Through Division of the Profit and Loss Account (Concluded).

EXPLANATION. These entries were prepared from the Statement of Profit and Loss, Illustration No. 131; compare with Illustrations Nos. 132, 133 and 136.

Profit and Loss

192						192				
Dec.	31	Sales Returns	J8	301 21		Dec.	31	Sales	J8	108 981 52
		Sales Allow	J8	120 11				Pur. Ret & All.	J8	169 32
		1922 Inventory	J8	14606 05						109150 84
		Purchases	J8	54575 74						
		Freight In	J8	561403						
				75217 14						
		Profit on Sales	✓	33933 70						
				109150 84						109150 84
Dec.	31	Selling Expense	J8	3961 11		Dec	31	Profit on Sales	✓	33933 70
		Salaries in S.D.	J8	5567 39				Branch Store	J8	1444 96
		Advt. Expense	J8	3783 96				Interest Earned	J8	101 73
		Trav Expense	J8	7568 30				Pur. Discount	J8	568 09
		Warehouse Exp	J8	3002 86				Cherry St Prop Rev	J8	138 94
		Del. Expense	J8	2372 95				Sale of Stock	J8	85
		Freight Out	J8	43 85						36272 42
		Loss on D. Accts.	J8	108 56						
		Admr. Expense	J8	2325 83						
		Bldg. Expense	J8	1249 38						
		Interest Cost	J8	207 93						
		Sales Discount	J8	166 47						
		Surplus	J8	591383						
				36272 42						36272 42

Illustration No. 136, Profit and Loss Account.

EXPLANATION. This illustration shows the Profit and Loss account after the entries affecting it in Illustration No. 135 have been posted. Compare with Illustration No. 133 which shows the same facts with the profit on sales closed through the Sales account.

J. A. WHITNEY & CO.

POST-CLOSING TRIAL BALANCE, DECEMBER 31, 192

1	Merchants National Bank	10496	30		
2	Petty Cash	50	00		
3	Notes Receivable	3338	99		
4	Notes Receivable Discounted			350	00
5	Accounts Receivable	10997	99		
6	Reserve for Doubtful Accounts Receivable			221	42
56	Accrued Rent on Cherry Street Property	27	50		
7	Subscribers to Capital Stock	750	00		
8	Cherry Street Property	2250	00		
9	Office Equipment	500	00		
10	Reserve for Depreciation of Office Equip.			42	25
11	Store Fixtures	350	00		
12	Reserve for Depreciation of Store Fixtures			28	25
13	Delivery Equipment	2018	00		
14	Reserve for Depreciation of Delivery Equip.			191	44
15	Building	3000	00		
16	Reserve for Depreciation of Building			450	00
17	Land	1500	00		
18	Goodwill	5063	43		
19	Office Supplies	82	65		
20	Advertising Material	119	65		
21	Warehouse Material	63	75		
22	Insurance	91	25		
23	Notes Payable			6014	28
24	Accounts Payable			19953	02
58	Accrued Warehouse Rent			150	00
59	Accrued Wages—Branch Store			135	42
60	Accrued Traveling Expense			87	65
61	Accrued Garage Expense			122	50
62	Accrued Taxes—Cherry Street Property			67	50
25	Capital Stock			50000	00
26	Unissued Capital Stock	10000	00		
27	Subscriptions to Capital Stock			1000	00
28	Treasury Stock	500	00		
29	Surplus			12720	69
53	1923 Inventory	31861	78		
37	Branch Store	9127	65		
47	Interest Earned	14	93		
51	Interest Cost			69	45
		91603	87	91603	87

Illustration No. 137, Post-closing Trial Balance.

EXPLANATION. This Trial Balance is taken from the ledger after all closing and post-closing entries have been made and posted, to prove that the ledger is in balance. The amounts will be the same as the entries in the asset and liability columns on the Working Sheet, and also the accounts on the Balance Sheet.

QUESTIONS ON THE WORKING SHEET

1. When and why is the Working Sheet prepared?
2. From what source is the information in the preparation of the Working Sheet obtained?
3. How is the information in connection with the inventories, accruals, and reserves obtained?
4. Why is the amount of each inventory, accrual and reserve entered in both the debit and credit adjustment columns on the Working Sheet?
5. Why are the amounts in the credit adjustment column added to credit balances on the Trial Balance?
6. Why are entries in the debit adjustment column added to debit balances on the Trial Balance?

7. Why is it necessary for the one making the extensions on the Working Sheet to know whether an account on the Trial Balance shows an asset or a cost, a liability or an income?
8. Why is the difference between the asset and liability columns the net profit or loss resulting from the operations of the business?
9. Why is the difference between the cost and income columns the net profit or loss from the operations of the business during the year?
10. Why is the difference between the asset and liability columns the same as the difference between the income and cost columns?

QUESTIONS ON THE FINANCIAL REPORTS

1. What is the purpose of the adjusting entries?
2. Why are the adjusting entries made and posted before the Balance Sheet and Statement of Profit and Loss are prepared?
3. Why does the difference between the assets and liabilities on the Balance Sheet show the proprietorship of the business?
4. Can the Balance Sheet be prepared from the Balance Sheet columns on the Working Sheet without reference to the accounts in the ledger?
5. Why is the difference between the income and operating cost shown on the Statement of Profit and Loss the net profit for the year?
6. Can the Statement of Profit and Loss be prepared from the income and cost columns on the Working Sheet?
7. What is the source of the information needed in making the journal entries to close the ledger?
8. What is the result of posting the closing entries?
9. What is the purpose of the post-closing entries?
10. What is the purpose of the post-closing Trial Balance?

Chapter XXXIII

MANUFACTURING ACCOUNTS

The Purpose of this Chapter is to explain the accounts needed to record transactions which occur in connection with the manufacturing of merchandise. The discussion does not relate to any particular method of cost accounting but to the fundamental accounts required when a business manufactures a part or all of the merchandise which it sells.

§ 333. Manufacturing. The merchant buys the merchandise which he sells, hence can easily ascertain the cost price of the same through the invoices and freight bills. The manufacturer does not sell the merchandise which he buys in the same form in which he buys it, but in a changed form. Because of these changes, it is necessary for him to record facts in addition to those needed by the merchant.

Where the operations of a manufacturing business are extensive, a cost accounting system is necessary in order to ascertain the cost of each unit or each article manufactured. Where the operations are limited to a small factory or department, the cost of manufacturing may be ascertained through three accounts: Materials, Labor, and Manufacturing Expense.

Fixed assets other than those used in a mercantile business may be needed in connection with the manufacturing of merchandise, but the nature of the account with each fixed asset is the same as that with office equipment. It is quite evident that the insurance and depreciation on fixed assets purchased for use in the manufacturing department will increase the cost of manufacture and that this increase will be shown through the Manufacturing Expense account (§ 336); hence, no special discussion is necessary for the fixed asset accounts.

MATERIALS ACCOUNT

§ 334. The Purpose of this Account is to show the cost of the materials purchased for use in the manufacture of the goods that are to be produced by the factory. The nature of the manufacturing process and the product resulting therefrom, will determine the nature of the raw material purchased. A manufacturer of safes might purchase the necessary castings from a foundry or he might purchase the iron ore and make the castings in his own foundry; a printer might buy the cases for the books which he manufactures or he might manufacture them on his own case-making machines. The Materials account shows a record of all costs of material purchased for use in the factory which will eventually become a part of the manufactured article.

Debit the Materials Account:

¶ 1. For the cost of material purchased, which includes the invoice and transportation cost.

Credit the Materials Account:

¶ 2. For any adjustments which reduce the cost of material purchased as shown by the debit side.

¶ 3. *The Balance of the Materials Account* at the close of the fiscal period shows the cost of material purchased during the period. It is shown on the Statement of Profit and Loss (§ 340) as one of the costs of goods manufactured.

If a separate record is kept of the material in the storeroom and the material in process of manufacture, it is necessary to maintain a Materials in Process account. This Materials in Process account is debited with the cost of material taken out of the storeroom and transferred to the factory, and the Materials account is credited for the same amount. At the close of the fiscal period the balance of the Materials in Process account is transferred to the Manufacturing account (§ 347).

LABOR ACCOUNT

§ 335. The Purpose of this Account is to show the cost of direct labor in the manufacturing department. Labor is divided into two classes: (a) that performed by employees who are engaged in the manufacture of the product sold, usually referred to as "direct" labor; (b) that performed by employees whose work is not applied direct to the product manufactured, usually referred to as "indirect" labor.

Debit the Labor Account:

¶ 1. For the direct labor cost as shown by the pay roll.

Credit the Labor Account:

¶ 2. For any adjustments which reduce the direct labor cost.

¶ 3. *The Balance of the Labor Account* at the close of the fiscal period shows the direct labor cost for the period. It is one of the costs of the goods manufactured and is shown as such on the Statement of Profit and Loss (§ 340).

MANUFACTURING EXPENSE ACCOUNT

§ 336. The Purpose of this Account is to show the cost of the various expenses incurred in the factory which can not be debited to the Materials or Labor accounts. These costs include factory expenses (rent, heat, light, etc.), indirect labor (superintendent's and foremen's salaries, wages of elevator operators, janitors, etc.), insurance and depreciation on fixed assets used in the manufacturing department, etc. The manufacturing expenses are so varied that it is sometimes advisable to group them in several classes and record transactions affecting each class in a separate account.

Debit this Account:

¶ 1. For all expenses in the factory which are not applicable to materials or direct labor cost.

Credit this Account:

¶ 2. For any adjustments which reduce the debit to this account.

¶ 3. *The Balance of the Manufacturing Expense Account* at the close of the fiscal period shows the manufacturing expenses for the period. This is one of the costs of the goods manufactured and is shown as such on the Statement of Profit and Loss (§ 340).

§ 337. Method of Ascertaining Cost of Goods Manufactured and Sold. At the close of the first fiscal period, the cost of material purchased during the period is shown by the Materials account, labor cost by the Labor account, and manufacturing expense by the Manufacturing Expense account. The total of these three costs will equal the cost of goods manufactured during the year, except the goods which are in process of manufacture at the close of the fiscal period; it is not practical to finish all jobs which are in process of manufacture at the close of the fiscal period.

To ascertain the cost of the goods manufactured, it is necessary to take an inventory of the goods which are in process of manufacture because this value must be deducted from the total cost of manufacturing for the period. The inventory of goods in process includes the cost of the material, labor, and manufacturing expense applicable to these goods. The difference between the total cost of materials, labor, and manufacturing expense during the period, less the cost of these items in the goods in process, is the cost of the goods manufactured during the period (finished goods).

The value of goods manufactured but not sold is ascertained by an inventory, and the amount deducted from the cost of all the goods manufactured to ascertain the cost of the goods sold, in the same manner as the merchandise inventory at the close of the period is deducted from the total purchases cost to ascertain the cost of goods sold in a trading business.

*

MANUFACTURING ACCOUNT

§ 338. **The Purpose of this Account** is to show the combined materials, labor, and manufacturing expense applicable to the cost of merchandise manufactured in the factory during the fiscal period. It is a summary account used in closing the ledger and is not debited or credited with any transactions that occur during the period.

Debit the Manufacturing Account:

¶ 1. For the inventory of goods in process at the beginning of the fiscal period.

¶ 2. For the balances of the Materials, Labor, and Manufacturing Expense accounts.

Credit the Manufacturing Account:

¶ 3. For the inventory of goods in process at the close of the fiscal period.

¶ 4. *The Balance of the Manufacturing Account* shows the cost of goods manufactured during the fiscal period. It is a summary account used in closing the ledger and does not appear on the Statement of Profit and Loss.

The unit cost of the articles manufactured may be ascertained by dividing the number of units manufactured into the total cost of manufacture. It is customary to make monthly tests of the unit cost, as the cost may vary during the year to such an extent that the profit on sales will be affected, unless the sale price is based on the changed cost price. The best method of ascertaining the unit cost of the articles manufactured is through a complete cost system; the method of ascertaining the unit cost through such a system is thoroughly explained in the chapters relating to cost accounting. The purpose of the discussion of the accounts in connection with manufacturing at this time is to show the student a method which is practical, when the volume of goods manufactured does not justify the expense of an elaborate cost system.

TRADING ACCOUNT

§ 339. **The Purpose of this Account** is to show the gross profit on sales of merchandise. In a business which manufactures a part or all of the goods sold, this account will show the facts set forth by the Statement of Profit and Loss beginning with the balance of the Manufacturing account (cost of goods manufactured); in a business which buys all the merchandise which it sells, it will show the facts beginning with the purchase of merchandise. The Manufacturing account and the Trading account are usually opened in the ledger as sections of the Profit and Loss account so that all the facts which appear on the Statement of Profit and Loss may be shown in one account. The Trading account is a summary account used in closing the ledger and does not appear on the Statement of Profit and Loss.

Debit the Trading Account:

¶ 1. For the balance of the Purchases or the Manufacturing account.

¶ 2. For the balances of the Sales Returns and Sales Allowances accounts.

¶ 3. For the merchandise inventory or the inventory of finished goods at the beginning of the fiscal period.

Credit the Trading Account:

¶ 4. For the balance of the Sales account.

¶ 5. For the balances of the Purchases Returns and Purchases Allowances accounts.

¶ 6. For the merchandise inventory or the inventory of finished goods at the close of the fiscal period.

¶ 7. *The Balance of the Trading Account* shows the gross profit or loss on sales, and is transferred to the Profit and Loss account in the same manner as the Sales account is closed into the Profit and Loss account. If the Trading account is a section of the Profit and Loss account, the Profit and Loss account is ruled and the balance carried down, as in Illustration No. 136.

§ 340. The Manufacturing Process, as explained in connection with the Materials, Labor, and Manufacturing Expense accounts, is illustrated by the transactions and entries which follow:

December 31, 1922, the Candy Kitchen had in stock manufactured candy, $1,645.87, candy in process of manufacture, $1,637.52, and materials in stock, $3,560.42. During the year, purchases of sugar, flavoring, and other material used in manufacturing candy amounted to $11,642.87; the labor cost, $5,261.40; and the manufacturing expense, $4,137.18. The sales of candy during the year amounted to $21,000.00. At the close of the year, December 31, 1923, the inventory of manufactured candy was $3,009.50, the inventory of candy in process, $1,542.91, and the inventory of materials, $4,859.77.

One entry in journal form to record the materials cost, one to record the labor cost, and one to record the manufacturing cost, assuming that cash was paid, would appear as follows:

	Materials	11,642 87		
	Cash			11,642 87
	Labor	5,261 40		
	Cash			5,261 40
	Manufacturing Expense	4,137 18		
	Cash			4,137 18

The manufacturing section of the Statement of Profit and Loss prepared from the three accounts and the inventories at the beginning and close of the period, would appear as follows:

CANDY KITCHEN
Statement of Profit and Loss, December 31, 1923.

Manufacturing Section		
Inventory of Materials, Dec. 31, 1922	3,560.42	
Add Materials purchased during period	11,642.87	
Total Materials Cost	15,203.29	
Deduct Inventory of Materials, Dec. 31, 1923	4,859.77	
Materials Placed in Process during period	10,343.52	
Labor Placed in Process during period	5,261.40	
Mfg. Expense Placed in Process during period	4,137.18	
Total Materials, Labor, and Mfg. Expense Placed in Process	19,742.10	
Add:		
Inventory of Goods in Process, December 31, 1922	1,637.52	21,379.62
Deduct:		
Inventory of Goods in Process, December 31, 1923		1,542.91
Cost of Goods Manufactured		19,836.71

The trading section of the same Statement of Profit and Loss would appear as follows:

Trading Section

Sales			21,000.00
Cost of Goods Sold:			
1922 Inventory of Finished Goods	1,645.87		
Cost of Goods Manufactured (per Mfg. Section)	19,836.71	21,482.58	
Less 1923 Inventory of Finished Goods		3,009.50	
Net Cost of Goods Sold			18,473.08
Gross Profit on Sales			2,526.92

The entry to close the 1922 inventory accounts with materials and materials in process and the balances of the Materials, Labor and Manufacturing Expense accounts into the Manufacturing account will appear in journal form as follows:

Manufacturing	26,239 39		
1922 Inventory of Materials		3,560 42	
Materials		11,642 87	
Labor		5,261 40	
Manufacturing Expense		4,137 18	
1922 Inventory of Materials in Process		1,637 52	

The entry to place the 1923 inventories of materials and materials in process of manufacture in the ledger would appear in journal form as follows:

1923 Inventory of Materials	4,859 77	
1923 Inventory of Materials in Process	1,542 91	
Manufacturing		6,402 68

The balance of the Manufacturing account, which shows the cost of the goods manufactured during the year, may be closed directly into the Profit and Loss account or closed through the Trading account. The following entry applies to the latter method:

Trading	19,836 71	
Manufacturing		19,836 71

The entry to close the 1922 Inventory of Finished Goods account into the Trading account will be as follows:

Trading	1,645 87	
1922 Inventory of Finished Goods		1,645 87

The entries to close the Sales account into the Trading account and to place the 1923 Inventory of Finished Goods in the ledger may be combined as follows:

Sales	21,000 00	
1923 Inventory of Finished Goods	3,009 50	
Trading		24,009 50

The balance of the Trading account, which shows the gross profit on sales, is closed into the Profit and Loss account by the following entry:

Trading	2,526 92	
Profit and Loss		2,526 92

The operating and non-operating incomes and expenses would be closed into Profit and Loss as explained and illustrated in previous chapters. The balance of the Profit and Loss account, which shows the net income, is then closed into the Surplus account, and any appropriation for dividends or for any other special purpose is taken out of Surplus by an entry debiting Surplus and crediting the account which is to show the amount of the appropriation.

Exercise No. 104, Purchase of the Stock of One Corporation by Another.

The Johnson Candy Co. is incorporated with a capital stock of $250,000.00 (2,500 shares), all common, $200,000.00 of which is subscribed and paid for. October 5 the stockholders of the Day Candy Company agree to sell their stock (par value, $100.00) to the Johnson Candy Company at $90.00 per share, and to accept in payment an equal number of shares in the Johnson Candy Company, paying the Johnson Candy Company cash for the difference. A Balance Sheet prepared from the books of the Day Candy Company is as follows:

DAY CANDY COMPANY

Balance Sheet, October 10, 192..

Assets			
CURRENT ASSETS:			
Cash		6000 00	
Notes Receivable		2450 00	
Accounts Receivable	15375 00		
Less Reserve for Bad Debts	168 10	15206 90	
Inventories, October 10, 192..:			
Boxed Candy in Stock		4752 80	
Bulk Candy in Stock		3041 25	
Raw Material in Stock		10933 45	
Boxes in Stock		349 60	
Barrels, etc., in Stock		237 65	42971 65
FIXED ASSETS:			
Land		15000 00	
Plant and Equipment	24600 00		
Less Reserve for Depreciation	6150 00	18450 00	
Delivery Equipment	2650 00		
Less Reserve for Depreciation	530 00	2120 00	
Office Equipment	500 00		
Less Reserve for Depreciation	50 00	450 00	36020 00
DEFERRED CHARGES TO OPERATION:			
Factory Supplies on Hand		345 10	
Office Supplies on Hand		103 06	
Prepaid Insurance		396 40	845 56
TOTAL ASSETS AND DEFERRED CHARGES			79837 21
Liabilities and Proprietorship			
CURRENT LIABILITIES:			
Notes Payable		12000 00	
Accounts Payable		6144 59	18144 59
FIXED LIABILITIES:			
Mortgage Payable, 5%			10000 00
PROPRIETORSHIP:			
Capital Stock Issued and Outstanding		50000 00	
Surplus		1692 62	51692 62
TOTAL LIABILITIES AND PROPRIETORSHIP			79837 21

The stockholders of the Day Candy Company and the number of shares held by each are as follows:

Kenton Grocery Co., 250 shares; Benjamin A. Dawson, 30 shares; M. F. Carr, 10 shares; S. G. Boone, 35 shares; Judson Gilbert, 20 shares; D. X. Bloom, 15 shares; E. H. Baldridge, 50 shares; H. T. Asbury, 25 shares; Robert Janson, 15 shares; H. A. DeCamp, 50 shares.

October 10, the Johnson Candy Company issues a certificate of stock to each stockholder of the Day Candy Company for the number of shares of the Day Candy Company stock which he holds; cash is received from each for the difference

between $90.00 per share and $100.00 per share. Judson Gilbert, who holds twenty shares of the Day Candy Company stock, was not present at the meeting when the consolidation was effected and refused to exchange his stock. A compromise was effected by the Johnson Candy Company's paying him $1,850.00 on his surrender of the certificate calling for twenty shares of the Day Candy Company stock.

1. Make the entries to close the books of the Day Candy Company.
2. Make the entries on the books of the Johnson Candy Company to record (a) the purchase of the stock of the Day Candy Company, and (b) the assets received from the Day Candy Company and the liabilities assumed.

Exercise No. 104, Manufacturing.

The following transactions were completed by the Roberts Clothing Company, manufacturers of men's clothing, during the month of July, 192..:

1. Purchased from the Globe Clothing Co., Chicago, cloth per invoice of May 28, $1,652.75.
5. Paid for required machinery, $18.75.
6. Payroll for the week, $1,627.75, $500.00 for superintendent and foremen, and the balance for employees.
10. Purchased from the Maryland Manufacturing Company, City, cloth, buttons and thread per invoice of this date, $1,252.50.
13. Payroll for the week, $1,765.30, $500.00 for superintendent and foremen, and the balance for employees.
15. Paid freight on the clothing purchased from the Globe Clothing Co., $96.50.
18. Paid for repairs on machinery, $36.75.
20. Payroll for the week, $1,639.27, $500.00 for superintendent and foremen, and the balance for employees.
24. Purchased from the Seaman Manufacturing Company, City, cloth and buttons per invoice of this date, $1,448.57.
27. Payroll for the week, $1,601.07, $500.00 for superintendent and foremen, and the balance for employees.
30. Sales to customers on account during the month, $8,562.50. Prepare a manufacturing statement showing the cost of merchandise manufactured and sold. All goods manufactured have been sold to customers. The value of goods in process at the beginning of the month was $2,742.65, and at the close of the month, $3,117.65.

Record these transactions in journal form, post to the accounts, make the adjusting entries for the goods in process, post, and prepare a manufacturing statement.

QUESTIONS

1. Distinguish between a merchant and a manufacturer.
2. What information in connection with purchases does a manufacturer need that the merchant does not need?
3. Name some of the materials which a manufacturer of automobiles would need to buy.
4. Name some of the finished products in connection with the manufacturing of automobiles which the manufacturer might buy.
5. What is manufacturing expense?
6. How does manufacturing expense differ from selling expense?
7. What are the three principal costs which enter into the manufacture of merchandise?
8. Would the manufacturer have a Sales account in his ledger? a Purchases account?
9. What facts does the Manufacturing account show? the Trading account?
10. When are the Manufacturing and Trading accounts opened? closed? How?

Chapter XXXIV

COMPARATIVE REPORTS

The Purpose of this Chapter is to explain and illustrate the Comparative Balance Sheet and the Comparative Statement of Profit and Loss. When properly analyzed, much valuable information can be obtained from reports which show the condition of the business at the conclusion of two or more consecutive fiscal periods. These reports will be of assistance to the management in planning future operations of the business.

§ 341. **A Comparative Balance Sheet** shows the assets, liabilities, and proprietorship for two or more consecutive fiscal periods. The information on the report is arranged in the same manner as the Balance Sheet prepared at the conclusion of a fiscal period, except that two or more columns are provided for showing the amounts involved. Illustration No. 138 shows a Comparative Balance Sheet prepared from the asset, liability, and proprietorship accounts of the American Mercantile Co., a corporation, at the conclusion of the fiscal periods ending December 31, 1921, and December 31, 1922.

§ 342. **Analysis of a Comparative Balance Sheet.** An analysis of Illustration No. 138 shows the following facts: The cash balance has decreased, and the notes receivable and accounts receivable have increased. While the total current assets have increased, yet the decrease in the cash balance and increase in accounts receivable indicate that collections for 1922 have not been so good as for 1921. The fixed assets show an increase because of the additional investment in land. The total current liabilities have increased $5,000.00 due to an increase in the accounts payable and notes payable to creditors. The increase in proprietorship is shown by the increase in the Surplus account. Much valuable information can be gained from a Comparative Balance Sheet both by the owner of the business and those outside of the business who are interested in it.

§ 343. **A Comparative Statement of Profit and Loss** shows the income and cost resulting from the operations of a business for two or more consecutive periods. The information is arranged in the same manner as on the Statement of Profit and Loss at the conclusion of a fiscal period except two or more columns are provided for the amounts involved. Illustration No. 139 shows a Comparative Statement of Profit and Loss prepared from the cost and income accounts on the ledger of the American Mercantile Co. for the fiscal periods ending December 31, 1921, and December 31, 1922.

§ 344. **Analysis of a Comparative Statement of Profit and Loss.** An analysis of Illustration No. 139 shows the following: The sales in 1922 show an increase of more than $34,000.00, the cost of merchandise an increase of more than $20,000.00, and the cost of operating the business an increase of more than $10,000.00. This indicates that a greater profit has been made on the volume of

(*Concluded on page 329*)

THE AMERICAN MERCANTILE COMPANY

Comparative Balance Sheet for Two Years Ending December 31, 1922

Assets	Dec. 31, 1921		Dec. 31, 1922		Increase or Decrease
Current Assets:					
Cash		44573.20		38706.10	*5867.10*
Notes Receivable		1650.00		4300.00	2650.00
Accounts Receivable	4000.00		7000.00		
Less Reserve for D'btful Accts	40.00	3960.00	110.00	6890.00	2930.00
Merchandise Inventory		14079.60		18990.40	4910.80
Accrued Interest Earned		19.40		85.00	65.60
Total Current Assets		64282.20		68971.50	4689.30
Fixed Assets:					
Office Equipment	1250.00		1250.00		
Less Reserve for Depreciation	62.50	1187.50	125.00	1125.00	*62.50*
Store Fixtures	2000.00		2000.00		
Less Reserve for Depreciation	150.00	1850.00	300.00	1700.00	*150.00*
Delivery Equipment	4500.00		4500.00		
Less Reserve for Depreciation	450.00	4050.00	900.00	3600.00	*450.00*
Building	10000.00		10000.00		
Less Reserve for Depreciation	250.00	9750.00	500.00	9500.00	*250.00*
Land		5000.00		15000.00	10000.00
Total Fixed Assets		21837.50		30925.00	9087.50
Goodwill		15000.00		15000.00	
Total Assets		101119.70		114896.50	13776.80
Deferred Charges per Schedule		454.30		1314.50	860.20
Total Assets and Deferred Charges		101574.00		116211.00	14637.00
Liabilities and Proprietorship					
Current Liabilities:					
Notes Payable—Bank	5000.00				*5000.00*
Notes Payable—Creditors	2000.00		2500.00		500.00
Accounts Payable	38000.00		47600.00		9600.00
Accrued Wages	495.00		568.00		73.00
Accrued Interest Cost	155.00		54.00		*101.00*
Total Current Liabilities		45650.00		50722.00	5072.00
Proprietorship:					
Capital Stock	50000.00		50000.00		
Surplus	5924.00		15489.00		9565.00
Total Proprietorship		55924.00		65489.00	9565.00
Total Liabilities and Proprietorship		101574.00		116211.00	14637.00

Illustration No. 138, Comparative Balance Sheet.

EXPLANATION. The names of the accounts and the figures in the first two amount columns are applicable to the Balance Sheet for 1921, and the names of the accounts and the figures in the second two amount columns, to the Balance Sheet for 1922. The increase or decrease is shown in the last column at the right, decreases being printed in italic. If desired, an additional column may be provided at the right in which to record the percentage of increase or decrease as explained in § 349 and Illustration No. 145.

THE AMERICAN MERCANTILE COMPANY

Comparative Statement of Profit and Loss for Two Years Ending December 31, 1922

	Dec. 31, 1921		Dec. 31, 1922		Increase or Decrease
RETURNS FROM SALES:					
Gross Sales		110000.00		145000.00	35000.00
Less Sales Returns and Allowances		3600.00		4000.00	400.00
Net Returns from Sales		106400.00		141000.00	34600.00
COST OF GOODS SOLD:					
Inventory at beginning of year	16910.80		14079.60		*2831.20*
Purchases	63981.30		89246.40		25265.10
Freight and Drayage In	10663.50		14874.40		4210.90
Total Purchases Cost	91555.60		118200.40		26644.80
Less Inventory at end of year	14079.60		18990.40		4910.80
Net Cost of Goods Sold		77476.00		99210.00	21734.00
Gross Profit on Sales		28924.00		41790.00	12866.00
OPERATING EXPENSES:					
Buying Expense	3850.00		6525.00		2675.00
Selling Expense	7700.00		13050.00		5350.00
Delivery Expense	4400.00		8700.00		4300.00
Administrative Expense	6600.00		4350.00		*2250.00*
Total Operating Expenses		22550.00		32625.00	10075.00
Net Profit from Operation		6374.00		9165.00	2791.00
OTHER INCOME:					
Interest Earned	250.00		650.00		400.00
Purchases Discount	500.00		850.00		350.00
Total Other Income		750.00		1500.00	750.00
Gross Income		7124.00		10665.00	3541.00
DEDUCTIONS FROM INCOME:					
Interest Cost	500.00		100.00		*400.00*
Sales Discount	700.00		1000.00		300.00
Total Deductions from Income		1200.00		1100.00	*100.00*
Net Income Carried to Surplus		5924.00		9565.00	3641.00

Illustration No. 139, Comparative Statement of Profit and Loss

EXPLANATION. The names of the accounts and the figures in the first two amount columns are applicable to the Statement of Profit and Loss for 1921, and the names of the accounts and the figures in the second two amount columns, to the Statement of Profit and Loss for 1922. The increase or decrease is shown in the last column at the right, decreases being printed in italic. If desired, an additional column may be provided at the right in which to record the percentage of increase or decrease as explained in § 349 and Illustration No. 145.

(*Continued from page 327*)

sales because the increase in the costs is not so great as the increase in the income. The purchases during 1922 show an increase of more than $25,000.00, but this is to be expected on account of the increase in sales. The inventory at the close of 1922 shows an increase over that at the close of 1921, but this is to be expected because of the increase in purchases. The net profit on sales shows an increase of more than $12,000.00. The operating income for 1922 shows an increase of almost $3,000.00 and the non-operating income an increase of $750.00. The

operating expense for 1922 shows an increase of more than $10,000.00, but the non-operating expense shows a decrease of $100.00. The net profit for 1922 shows an increase of more than $3,500.00, but this is not in proportion to the increase in sales, hence indicates that the operating cost has increased out of proportion to the increase in sales.

§ 345. **A Graph** or graphical chart is a pictorial presentation of comparative facts. There are three forms of graphs in general use, (a) the bar graph, (b) the curved graph, and (c) the circular graph. Each of these forms may be used in presenting facts shown on the reports prepared from bookkeeping records. The facts usually set forth in graphic form are (a) comparison of sales for two or more periods, (b) comparison of selling expense for two or more periods, (c) comparison

(*Concluded on page 331*)

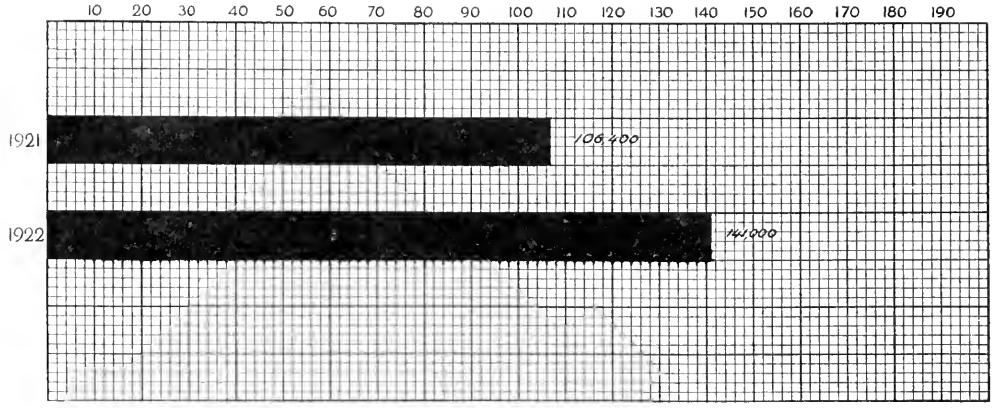


Illustration No. 140, Horizontal Bar Graph.

EXPLANATION. This shows a comparison of the sales for the two years in Illustration No. 139. The unit in each bar is based on $10,000.00.

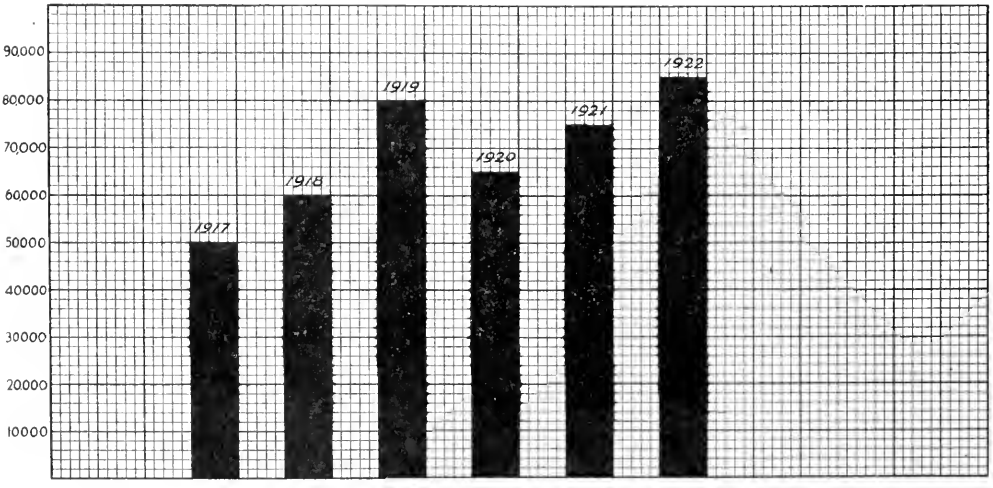


Illustration No. 141, Vertical Bar Graph.

EXPLANATION. The figures used in this graph are given in the second paragraph of § 346. The unit in each bar is based on $10,000.00.

of sales and selling expense for one or more periods, (d) comparison of purchases with purchases expense for one or more periods, (e) comparison of purchases with sales for one or more periods, (f) comparison of current assets for two or more periods, (g) comparison of fixed assets for two or more periods, and (h) comparison of current liabilities for two or more periods; any other facts shown on the reports submitted by the bookkeeper to the manager of a business can be presented in pictorial form.

§ 346. **A Bar Graph** is used to compare totals for two or more periods. Thus, if it is desired to show in pictorial form by a bar graph the sales for the two years in the comparative Statement of Profit and Loss in Illustration No. 139, the bars would be arranged as in Illustration No. 140.

If the comparison of sales is for six periods, the sales for the first year being $50,000.00, for the second, $60,000.00, for the third, $80,000.00, for the fourth, $65,000.00, for the fifth, $75,000.00, and for the sixth, $85,000.00, the facts presented in bar graph form would appear as in Illustration No. 141.

If desired, the bars in the bar graph may be made to show a comparison of more than one group of figures. Thus, if it is desired to show net sales, cost of sales, selling expense and administrative expense on the same bar graph for the two periods in Illustration No. 139, the graph would appear as in Illustration No. 142.

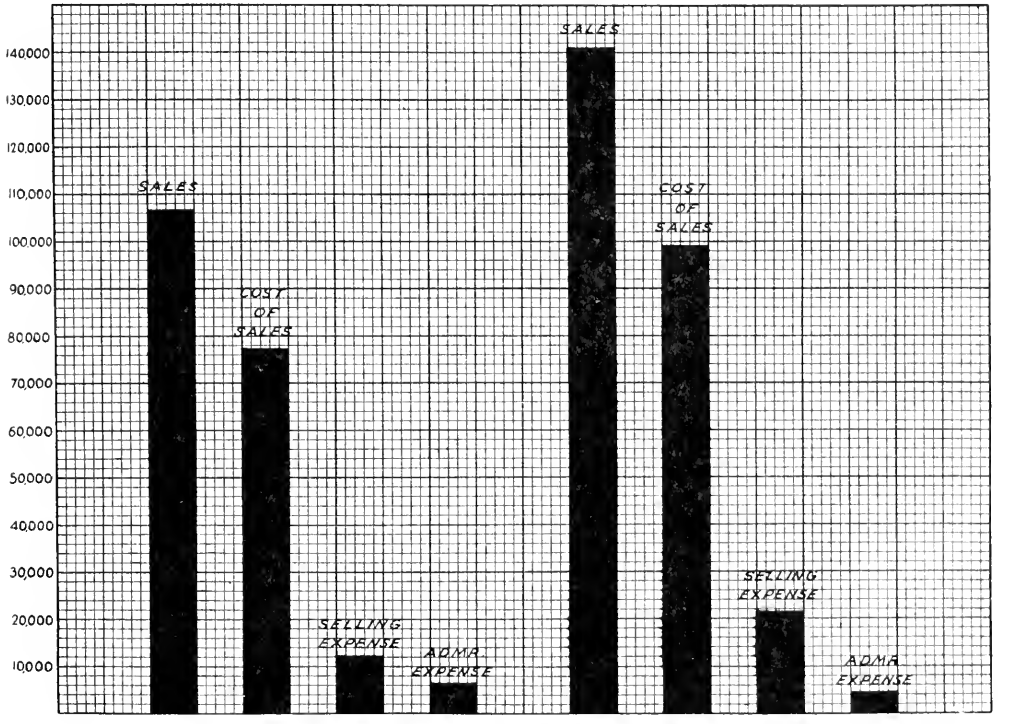


Illustration No. 142, Vertical Bar Graph.

EXPLANATION. The first four bars show the sales, cost of sales, selling expense (including delivery expense), and administrative expense for 1921, and the second four bars the same facts for 1922 (Illustration No. 139). Each bar is divided into ten units of $10,000.00 each, and each unit is subdivided into $2,000.00 units. For convenience, it is customary to base the comparison on even hundreds or thousands of dollars.

§ **347. A Curved Graph** is used to present a comparison of figures over a number of periods. Assuming that the monthly sales and selling expense for the years 1921 and 1922 are as shown at the top of page 333, a curved graph setting forth the facts would appear as in Illustration No. 143.

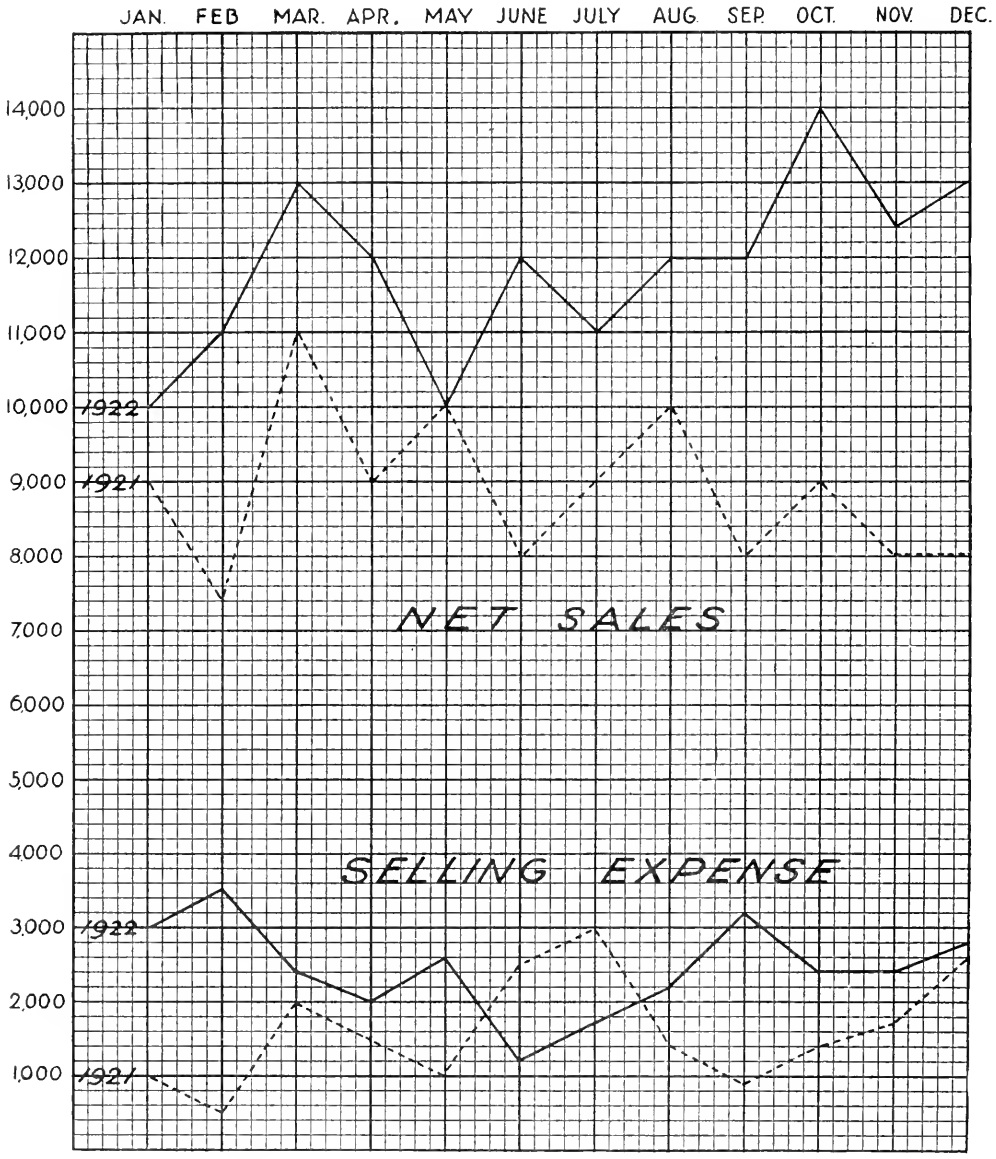
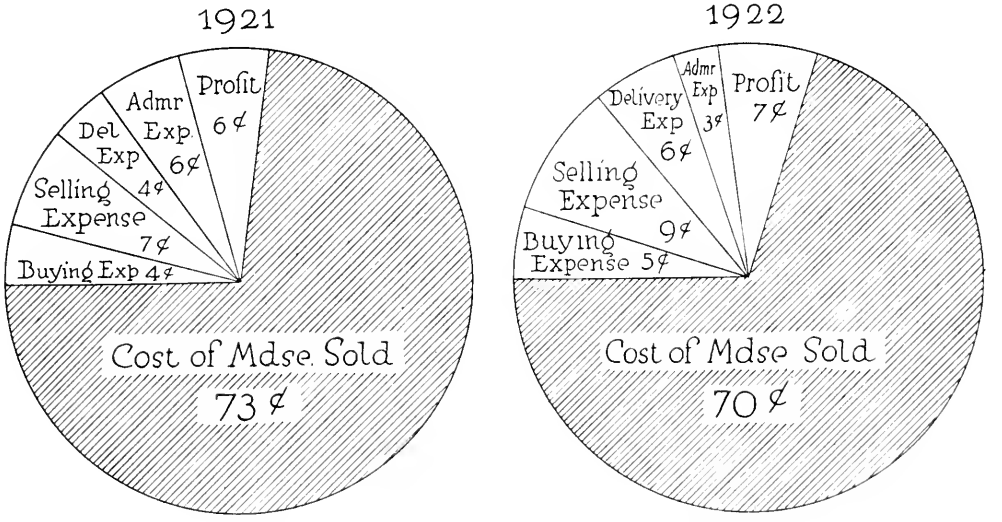


Illustration No. 143, Curved Graph.

EXPLANATION. The curves at the top show a comparison of sales for the two years, and the curves at the bottom show a comparison of the selling expense for the two years. The figures used are given at the top of page 333. The graph is divided into fifteen units, of $1,000.00 each, each unit being subdivided into five units of $200.00 each.

	Sales		Selling Expense	
	1921	1922	1921	1922
January	$ 9,000.00	$10,000.00	$ 1,000.00	$3,000.00
February	7,400.00	11,000.00	500.00	3,500.00
March	11,000.00	13,000.00	2,000.00	2,400.00
April	9,000.00	12,000.00	1,500.00	2,000.00
May	10,000.00	10,000.00	1,000.00	2,600.00
June	8,000.00	12,000.00	2,500.00	1,200.00
July	9,000.00	11,000.00	3,000.00	1,700.00
August	10,000.00	12,000.00	1,400.00	2,200.00
September	8,000.00	12,000.00	900.00	3,200.00
October	9,000.00	14,000.00	1,400.00	2,400.00
November	8,000.00	12,400.00	1,700.00	2,400.00
December	8,000.00	13,000.00	2,600.00	2,800.00

§ 348. **A Circular Graph** is used to present figures where a comparison is based on $1.00 or 100%. Thus, when a merchant receives $1.00 for merchandise sold, he knows that this dollar must cover the cost of the merchandise, the selling cost, the administrative cost, and his profit, and that each cost and return is a certain per cent of the total sales. The facts relative to sales, cost of sales, cost of buying, cost of selling, cost of delivering, cost of administration, and profit for the two fiscal periods in Illustration No. 139, when presented in circular graph form, will appear as in the illustration below.



Costs and Profit in Each One Dollar Sale

Illustration No. 144, Circular Graph.

EXPLANATION. Each of the above circles represents a sale of $1.00. That part of the dollar which was spent to purchase the merchandise sold is shown by the shaded area, and the operating expenses paid to effect this sale and the profit remaining after all costs applicable to this sale have been paid are indicated by the unshaded portion. This information will be valuable to the management in fixing the selling price of merchandise for the year 1923. The figures were obtained from the comparative Statement of Profit and Loss, Illustration No. 139; the same facts for 1922 expressed as percentages are shown in the Statement of Profit and Loss, Illustration No. 145.

§ **349. Percentages** are used to present a comparison of figures and are sometimes even more comprehensive than the graphs or the figures themselves. All bookkeeping facts presented in percentage form should be based on net sales. One reason for this is that each dollar received represents certain costs and profit, hence the same base should be used for calculating the percentage of each. There are many other reasons, but since these are given in connection with the study of percentage, it is not deemed necessary to repeat them here.

When percentages are used to emphasize facts on a Balance Sheet or Statement of Profit and Loss, they are usually shown in a separate column on the reports. Illustration No. 145 shows the 1922 Statement of Profit and Loss in the Comparative Statement, Illustration No. 139, with the percentages based on net sales entered in the column provided for them.

THE AMERICAN MERCANTILE COMPANY

Statement of Profit and Loss for Year Ending December 31, 1922

			% of Net Sales
RETURNS FROM SALES:			
Gross Sales		145000.00	103
Less Sales Returns and Allowances		4000.00	3
Net Returns from Sales		141000.00	100
COST OF GOODS SOLD:			
Inventory, January 1, 1922	14079.60		10
Purchases	89246.40		63
Freight and Drayage In	14874.40		10
Total Purchases Cost	118200.40		83
Less Inventory, December 31, 1922	18990.40		13
Net Cost of Goods Sold		99210.00	70
Gross Profit on Sales		41790.00	30
OPERATING EXPENSES:			
Buying Expense	6525.00		5
Selling Expense	13050.00		9
Delivery Expense	8700.00		6
Administrative Expense	4350.00		3
Total Operating Expenses		32625.00	23
Net Profit from Operations		9165.00	7
OTHER INCOME:			
Interest Earned	650.00		0.4
Purchases Discount	850.00		0.6
Total Other Income		1500.00	1
Gross Income		10665.00	8
DEDUCTIONS FROM INCOME:			
Interest Cost	100.00		0.1
Sales Discount	1000.00		0.7
Total Deductions from Income		1100.00	0.8
Net Income Carried to Surplus		9565.00	7

Illustration No. 145, Statement of Profit and Loss with Percentages.

EXPLANATION. Net sales are taken as a base and $100.00 units used in the calculations. A comparison of these percentages with the circular graph in Illustration No. 144 will help the student to understand the percentages better. It will be observed that each $1.00 sale consists of 100 units, a certain number of these units being applicable to the various costs and the profit.

Exercise No. 105, Comparative Reports, Graphs and Percentages.

The Trial Balance of the American Mercantile Company, taken at the close of the fiscal period, December 31, 1923, shows the following account balances: Cash, Dr., $29,819.10; Notes Receivable, Dr., $3,800.00; Accounts Receivable, Dr., $36,800.00; Reserve for Doubtful Accounts Receivable, Cr., $110.00; Office Equipment, Dr., $1,750.00; Reserve for Depreciation of Office Equipment, Cr., $125.00; Store Fixtures, Dr., $4,000.00; Reserve for Depreciation of Store Fixtures, Cr., $300.00; Delivery Equipment, Dr., $4,500.00; Reserve for Depreciation of Delivery Equipment, Cr., $900.00; Buildings, Dr., $25,000.00; Reserve for Depreciation of Buildings, Cr., $500.00; Land, Dr., $15,000.00; Goodwill, Dr., $15,000.00; Notes Payable—Bank, Cr., $5,000.00; Notes Payable—Creditors, Cr., $1,500.00; Accounts Payable, Cr., $54,650.00; Mortgage Payable, Cr., $10,000.00; Capital Stock, Cr., $50,000.00; Surplus, Cr., $15,489.00; Sales, Cr., $207,000.00; Sales Returns and Allowances, Dr., $3,500.00; 1922 Inventory, Dr., $18,990.40; Purchases, Dr., $140,000.00; Freight and Drayage In, Dr., $13,000.00; Buying Expense, Dr., $5,000.00; Selling Expense, Dr., $15,864.50; Delivery Expense, Dr., $9,100.00; Administrative Expense, Dr., $4,350.00; Interest Earned, Cr., $750.00; Purchases Discount, Cr., $1,000.00; Interest Cost, Dr., $600.00; Sales Discount, Dr., $1,150.00; Donations, Dr., $100.00.

The following adjustments are to be made:

(a) Merchandise Inventory, December 31, 1923, $15,754.90.

(b) Interest accrued on notes receivable, $70.00.

(c) Interest accrued on notes payable, $60.00. Unpaid wages: Buying Expense, $125.00; Selling Expense, $375.00; Delivery Expense, $75.00; Administrative Expense, $200.00.

(d) Office supplies on hand, $125.00; advertising supplies on hand, $300.00. (Debit one account with Deferred Charges to Operation, and credit the expense accounts for these inventories.)

(e) Reserves: Office Equipment, 5%; Store Fixtures, 7½%; Delivery Equipment, 10%; Buildings, 2½%; Doubtful Accounts Receivable, one half of 1% of Accounts Receivable.

The student is required to prepare the following:

1. Adjusting entries for the inventories, accruals, and reserves.
2. A Working Sheet under date of December 31, 1923.
3. A comparative Balance Sheet and a comparative Statement of Profit and Loss for 1922 and 1923. The necessary facts are shown on the Working Sheet and the 1922 reports in Illustrations Nos. 138 and 139.
4. Journal entries to close the ledger, December 31, 1923.
5. Post-closing entries under date of January 1, 1924.
6. A bar graph, similar in form to Illustration No. 142, showing a comparison of net sales and selling expense for the years 1922 and 1923.
7. A Statement of Profit and Loss showing the percentages based on net sales as 100%; drop fractional parts of $100.00, using even hundreds of dollars, in calculating the percentages.
8. A circular graph, similar in form to Illustration No. 144, showing the proportionate part of a dollar applicable to the cost of the merchandise sold and the various operating expenses; the Statement of Profit and Loss required in No. 7 may be used as a basis in preparing this graph.

QUESTIONS ON ILLUSTRATIONS NOS. 138 AND 139.

1. What is the increase in sales for 1922?
2. What is the increase in the selling expense for 1922?
3. Is the increase in sales in proportion to the increase in the selling expense?
4. What is the increase in cost of sales for 1922?

5. (a) Can you assign a reason for the decrease in administrative expense? (b) For the increase in delivery expense?
6. Is the increase in current assets in proportion to the increase in sales?
7. Is the increase in current liabilities in proportion to the increase in purchases?
8. Is the increase in proprietorship the same as the increase in net income?
9. If a part of the income had been withdrawn in cash, what effect would this have on the current liabilities and proprietorship?
10. If you owned ten shares of stock in the American Mercantile Co., for which you had paid par, would you regard this as a good investment based on the facts shown by the two reports?

QUESTIONS ON GRAPHS

1. Which form of graph would be more satisfactory for setting forth in pictorial form a comparison of sales for three consecutive years?
2. Explain the connection between the circular graph and the percentages.
3. Why are net sales used as a base for ascertaining the percentage of the costs to the sales?
4. Would the percentage of buying expense be based on total purchases or the net purchases or net sales? Give reason for answer.
5. Why is buying expense not included with the purchase cost of merchandise?
6. What effect would it have on the percentage if the cost of merchandise sold is used as a basis?
7. Could a comparison of sales, cost of sales, cost of selling, and administrative cost be shown on one bar graph? Explain.
8. When comparing percentages for two or more periods, would all the percentages be based on the sales for one period, or the sales for each period? Explain.
9. Of what advantage to the owner of the business is a circular graph showing the various costs which enter into each dollar of sales he receives?
10. Of what advantage to the owner of a business is a curved graph setting forth a comparison of the sales by months during two or more years?

Chapter XXXV

CORPORATION PROBLEMS

The Purpose of this Chapter is to give the student an opportunity to apply the principles discussed in the preceding chapters through the recording of transactions affecting the organization, operations, and dissolution of corporations. If the student understands the principles governing corporation accounting, he will have no trouble in making the required entries to open the corporation books, to close a set of corporation books, or to record those transactions affecting the proprietorship of the corporation.

Exercise No. 106, Opening Entries.

May 1, 1923, a charter was granted to C. W. Addison, J. B. Chaney, E. O. Dana, L. B. Simrall, and E. D. Townsend for the purpose of operating a canning factory. C. W. Addison and J. B. Chaney own land, buildings, and machinery which have been used for this purpose in the past, but the operations have been discontinued. The charter granted provides for a capital stock of $100,000.00, half of which is common and half preferred, par value $100.00 per share.

C. W. Addison and J. B. Chaney each subscribe for one hundred shares of common and one hundred shares of preferred stock with the understanding that one half of the subscription of each is to be paid by the corporation's accepting the land, buildings, and machinery owned by them; each is to pay cash for the other half of his subscription. E. O. Dana, L. B. Simrall, and E. D. Townsend each subscribe for fifty shares of common stock, one half of which is to be paid for in cash and the balance in two equal installments payable in 90 and 120 days.

J. W. Wolfe subscribes for one hundred shares of preferred stock with the privilege of deducting a discount of three per cent for cash. D. V. Beatty subscribes for twenty-five shares of common and seventy-five shares of preferred stock; he is to pay cash for the common and the corporation is to accept machinery valued at $3,500.00 and his note for $4,000.00 in payment for the preferred. E. Mannix and J. R. Armleder each subscribe for twenty-five shares of preferred stock to be paid for in cash. H. Pearson, W. L. Garber, and K. Ferger each subscribe for ten shares of preferred and fifteen shares of common stock, agreeing to pay cash for the preferred and cash for one third of the common, balance of the common to be paid for in two equal installments payable in sixty and ninety days.

1. Prepare in journal form the entries required to record the authorized capital stock and the subscriptions.

2. Make in journal form the entries necessary to record the cash and other property received in payment for stock as per agreement at the time the corporation was organized, assuming that stock was issued when fully paid.

3. Prepare in journal form the entries when the deferred payments are made, it being assumed that D. V. Beatty pays one-half of his note and interest at maturity and renews the other half with an interest-bearing note due in ninety days.

Exercise No. 107, Entry for Stock Sold.

W. G. Darling subscribed for ten shares of the capital stock of the Boyd Manufacturing Co. at $100.00 per share. He paid cash $250.00 and gave his sixty-day note for the balance, attaching the certificate of stock as collateral security. He died before paying the note. His estate was insolvent and the corporation settled with the administrator by refunding one-half the amount Mr. Darling had paid.

Prepare in journal form (a) the entry when the stock was sold to Mr. Darling, and (b) the entry when settlement was made with the administrator.

Exercise No. 108, Opening Entries.

F. L. Burke, R. S. Cooke, and C. B. Summers, partners in a mercantile business, wish to incorporate at the close of business June 30, 192.. The Balance Sheet prepared from their books at that time shows the following facts:

BURKE, COOKE & SUMMERS
Balance Sheet, June 30, 192..

Assets			
CURRENT ASSETS:			
Cash		6,011 70	
Notes Receivable		1,000 00	
Accounts Receivable	12,014.00		
Less Reserve for Bad Debts	248.60	11,765 40	
Accrued Interest Earned		9 50	
Merchandise Inventory, June 30		2,500 00	21,286 60
FIXED ASSETS:			
Office Equipment	350.00		
Less Reserve for Depreciation	52.50	297 50	
Store Fixtures	400.00		
Less Reserve for Depreciation	16.00	384 00	
Delivery Equipment	4,100.00		
Less Reserve for Depreciation	480.00	3,620 00	4,301 50
DEFERRED CHARGES TO OPERATION:			
Office Supplies on hand		62 50	
Prepaid Insurance		46 40	108 90
TOTAL ASSETS AND DEFERRED CHARGES			25,697 00
Liabilities and Proprietorship			
CURRENT LIABILITIES:			
Notes Payable		500 00	
Accounts Payable		1,327 60	
Accrued Interest Cost		15 00	1,842 60
PROPRIETORSHIP:			
F. L. Burke, Capital		8,037 15	
R. S. Cooke, Capital		7,956 75	
C. B. Summers, Capital		7,860 50	23,854 40
TOTAL LIABILITIES AND PROPRIETORSHIP			25,697 00.

The three partners sign application for a charter of incorporation with a capital stock of $50,000.00, consisting of one thousand shares at $50.00 a share. F. L. Burke subscribes for 250 shares; R. S. Cooke, 200 shares; C. B. Summers, 200 shares; R. H. Porter, 100 shares; J. G. Winkler, 50 shares; W. G. Brownfield, 50 shares; J. C. Walters, 50 shares; the remaining 100 shares will be sold later.

Each partner is to receive 180 shares for his interest in the business and pays cash for the balance of his subscription. The corporation accepts from R. H. Porter two trucks which he has been using in a similar business operated by himself, valued at $4,000.00; he pays cash for the balance of his subscription. All other subscribers pay cash for their subscriptions.

The difference between the par value of the stock accepted by the partners in payment for their interest in the business and the proprietorship of the three partners, is to be regarded as goodwill.

Prepare in journal form the entries (a) to close the partnership books, and (b) to open the corporation books.

Exercise No. 109, Transactions with a Delinquent Subscriber.

Record the following transactions in journal form:

May 5. C. W. Green subscribed for fifteen shares of Peoples Telephone Co. stock at $50.00 per share, payable within ten days.

9. Received from C. W. Green $100.00 on account of stock subscription.

25. Brought suit against C. W. Green for $650.00, balance due on stock subscription.

June 5. Court rendered a judgment against C. W. Green for $687.96, covering the amount of his indebtedness, $650.00, court costs, $26.40, and interest on his account, $11.56. Gave the court a check for $26.40 in payment for costs.

20. Received from the court a check for $687.96, amount of the judgment rendered against C. W. Green.

Issued fifteen shares of stock to C. W. Green.

21. Gave A. Y. Burris, attorney, a check for $33.08, five per cent collection fee for collecting the account against C. W. Green.

Exercise No. 110, Donated Stock.

January 1, 1923, the Mercantile Trading Company, a corporation with a capital stock of $500,000.00, of which $250,000.00 is common and $250,000.00 preferred, finds that it can not pay maturing obligations and that it will be necessary to make an assignment unless cash can be secured. All the common and preferred stock has been sold, hence additional capital can not be secured through the sale of stock without the legal formalities of having the capital stock increased, which would require more time than is available. A meeting of the stockholders is called to decide the future policy of the corporation. At this meeting it is agreed that each stockholder will donate to the corporation approximately one fifth of the common stock which he owns; this stock is to be sold for cash. It is decided that it will be better for the stockholders to sacrifice a part of their holdings in order to tide the business over its present financial embarrassment than to take the chance of losing more heavily through the creditors asking for a receiver to take charge of the affairs of the business.

Jan. 5. $50,000.00 of the common stock was received from the stockholders as per agreement of the 1st; this stock was donated to the corporation.

6. Transferred $10,000.00 of this common stock to the First National Bank to apply as part payment on a note for $10,000.00 due today; the bank accepts the stock at .90.

7. Received $26,500.00 cash in payment for 300 shares (par value, $100.00) of the donated common stock.

8. Paid Anderson Bros. $4,250.75, balance due them, with 30 shares of donated common stock at .85 and check for the balance.

1. Record in journal form the foregoing transactions and post to ledger accounts, allowing five lines for each account.

2. Assuming that the net proprietorship of the corporation at the close of the next business year is $605,000.75, indicate the form in which this would be shown on the Balance Sheet.

Exercise No. 111, Organization of and Opening Entries for a Corporation.

The Roberts Printing Co. is incorporated in the state of New York. The incorporators are A. L. Roberts, H. B. Boyles, V. W. Boyles, T. E. Robbins, and A. J. Smith. The corporation has an authorized capital stock of $250,000.00, par value $100.00 per share. Subscriptions for this stock are as follows: A. L. Roberts, $75,000.00; H. B. Boyles, $35,000.00; V. W. Boyles, $35,000.00; T. E. Robbins, $10,000.00; A. J. Smith, $12,500.00; S. P. Benham, $5,000.00; L. M.

Wiley, $2,500.00; and M. J. Coleman, $25,000.00. It is decided to hold $50,000.00 of the capital stock for future use. All subscriptions are paid in cash.

A. L. Roberts, the promotor of the corporation, obtained the subscriptions and attended to the details of the incorporation. The corporation is to engage in the printing and publishing business in the city of Albany, New York.

1. Show in outline form each step involved, from the time Mr. Roberts conceived the organization of this business until the corporation is ready to begin business operations.

2. Prepare the charter, taking into consideration the conditions required in the New York law and the form of charter in Chapter XXV.

3. Show in journal form the opening entries.

Exercise No. 112, Changing a Partnership to a Corporation.

Smiley, Winters & French, partners, agree to incorporate at the close of the business year, June 30, 1922. A Balance Sheet prepared at this time is as follows:

SMILEY, WINTERS & FRENCH
Balance Sheet, June 30, 192..

Assets			
CURRENT ASSETS:			
Cash		12412 78	
Accounts Receivable	236.52		
Less Reserve for Bad Debts	50.85	185 67	
Inventory—Drugs		2554 00	
Inventory—Merchandise		1008 53	
Inventory—Soda Fountain Supplies		182 26	16343 24
FIXED ASSETS:			
Office Equipment	300.00		
Less Reserve for Depreciation	42.50	257 50	
Store Fixtures	1119.50		
Less Reserve for Depreciation	167.93	951 57	
Soda Fountain Equipment	650.00		
Less Reserve for Depreciation	48.75	601 25	
Building	9000.00		
Less Reserve for Depreciation	300.00	8700 00	
Land		5000 00	15510 32
DEFERRED CHARGES TO OPERATION:			
Office Supplies		117 42	
Advertising Material		50 00	
Insurance Unexpired		237 80	405 22
TOTAL ASSETS AND DEFERRED CHARGES			32258 78
Liabilities and Proprietorship			
CURRENT LIABILITIES:			
Notes Payable		2500 00	
Accounts Payable		4186 36	
Accrued Interest Cost		144 50	
Accrued Wages		56 40	6887 26
FIXED LIABILITY:			
Five-Year Mortgage			10000 00
PROPRIETORSHIP:			
S. M. Smiley, Capital		9479 04	
D. P. Winters, Capital		2946 24	
L. S. French, Capital		2946 24	15371 52
TOTAL LIABILITIES AND PROPRIETORSHIP			32258 78

The capital stock of the corporation is to be $25,000.00, consisting of five hundred shares at $50.00 per share. The subscriptions at the time the charter is granted July 1 are as follows: D. P. Winters, 100 shares; L. S. French, 100 shares; S. M. Smiley, 100 shares; A. L. Frost, 50 shares; E. D. Carpenter, 50 shares; and C. C. Lowrey, 50 shares. The corporation agrees to pay the partners $15,000.00 for their interest in the partnership, taking over all the assets and assuming all the liabilities. Each partner is to pay cash for the stock subscribed for by him and to receive cash for 95 per cent of his proprietary interest in the business as shown by the Balance Sheet; the remaining five per cent is to constitute a surplus to take care of possible loss resulting from taking over the assets of the partnership. The other subscribers pay cash for their subscriptions.

1. Prepare in journal form the entries necessary to close the books of the partnership.

2. Make in journal form the entries necessary to open the books of the corporation, taking into consideration the conditions mentioned.

If desired, the student may show the cash paid to the partners for their interest in the business and the cash received from them by the corporation for the stock subscribed, though in practice only the difference would be paid to or received by the corporation, as it does not buy the cash belonging to the partnership.

Exercise No. 113, Distribution of Profit.

The Union Grocery Company is incorporated with a capital stock of $200,000.00 —$100,000.00 preferred, and $100,000.00 common; $90,000.00 of the preferred and $85,000.00 of the common has been issued. The preferred stock pays a dividend of eight per cent. The Surplus account at the close of the fiscal period, December 31, 1922, shows a balance of $22,500.00. It is decided to declare a dividend of eight per cent on the outstanding preferred stock and ten per cent on the outstanding common stock, and to transfer to a Sinking Fund Reserve account $5,000.00 to provide for bonds which will mature in the future.

Make in journal form the entries necessary to record the dividends and the sinking fund reserve.

Exercise No. 114, Stock Dividend.

At the close of business December 31, 192.., the Capital Stock account of the Consolidated Manufacturing Co. shows a credit balance of $300,000.00, and the Unissued Capital Stock account, a debit balance of $100,000.00; the Surplus account shows a credit balance of $162,500.00. The board of directors decides to declare a cash dividend of ten per cent and a stock dividend of fifty per cent of the outstanding stock.

Make in journal form the entries necessary to record these dividends.

Stock dividend refers to capital stock issued to the stockholders for a part of their interest in the surplus. The value of this stock is debited to the Surplus account.

Exercise No. 115, Changing from a Corporation to a Sole Proprietorship.

The Peoples Trading Co. is incorporated with a capital stock of $25,000.00, consisting of 5,000 shares, par value $5.00 each. Four thousand shares are owned by C. H. Love, the other one thousand being owned by various stockholders. Mr. Love decides to change the business from a corporation to a sole proprietorship and calls a meeting of the stockholders for this purpose. Holding more than fifty per cent of the stock, he votes a majority for cancellation of the charter and his attorney complies with the necessary legal requirements. December 10, when notice is received that the charter has been canceled, the Balance Sheet of the corporation is as shown at the top of page 342.

THE PEOPLES TRADING COMPANY

Balance Sheet, December 10, 192..

Assets			
CURRENT ASSETS:			
Cash in Bank		19430.15	
Office Cash Fund		100.00	
Notes Receivable	1110.00		
Less Notes Receivable Discounted	55.00	1055.00	
Accounts Receivable	9845.20		
Less Reserve for Doubtful Accounts	104.16	9741.04	
Mdse. Inventory, December 10, 192		3236.96	
Accrued Interest on Notes Receivable		10.00	33573.15
FIXED ASSETS:			
Office Equipment	450.00		
Less Reserve for Depreciation	45.00	405.00	
Store Fixtures	1539.60		
Less Reserve for Depreciation	307.92	1231.68	
Delivery Equipment	2400.00		
Less Reserve for Depreciation	720.00	1680.00	
Buildings	8000.00		
Less Reserve for Depreciation	640.00	7360.00	
Land		4500.00	15176 68
GOODWILL			6049.18
DEFERRED CHARGES TO OPERATION:			
Office Supplies		125.00	
Advertising Material		344.50	
Warehouse Supplies		218.94	
Prepaid Insurance		114.12	802.56
TOTAL ASSETS AND DEFERRED CHARGES			55601.57
Liabilities and Proprietorship			
CURRENT LIABILITIES:			
Notes Payable—Bank		6000.00	
Notes Payable—Trade Creditors		1637.42	
Accounts Payable		4691.17	
Accrued Interest on Notes Payable		90.00	
Accrued Wages		392.50	12811.09
PROPRIETORSHIP:			
Capital Stock Issued and Outstanding		25000.00	
Surplus		17790.48	42790.48
TOTAL LIABILITIES AND PROPRIETORSHIP			55601.57

A. L. Peters, one of the incorporators, who holds twenty shares of stock, owes the corporation an account of $110.00; Mr. Love cancels this account upon surrender of the certificate of stock. J. L. Browning, another stockholder, who holds forty shares of stock, owes the corporation a note for $200.00 on which $10.00 interest has accrued; Mr. Love accepts his stock at $5.50 per share and his check for the balance in settlement of the note and interest. The other stockholders accept cash at $5.50 per share for their stock.

1. Make the journal entries necessary to record the change from a corporation to an individual proprietorship.

2. Make in journal form the entries necessary to record the cancellation of stock owned by outside stockholders.

Exercise No. 116, Reduction of Capital Stock.

The Davis Printing Co. is incorporated with a capital stock of $50,000.00, consisting of five hundred shares, par value $100.00 each. At the close of the fiscal period December 31, 192.., C. U. Davis, who holds $10,000.00 worth of stock, wishes to retire from the business and agrees to accept $8,000.00 for his stock. The remaining stockholders accepted his proposition and the corporation's check was issued for $8,000.00 in payment for this stock. It is decided at the annual meeting of the stockholders held January 2, to reduce the capital stock from $50,000.00 to $40,000.00 and the corporation's attorney is instructed to prepare the necessary legal papers. January 10 the attorney advises that an amended charter has been granted, reducing the capital from $50,000.00 to $40,000.00.

Record in journal form the purchase of stock from C. U. Davis, and the reduction of capital stock on January 10.

Exercise No. 117, Changing from a Corporation to a Partnership.

THE H. R. JUDSON CORPORATION

Balance Sheet, October 31, 192..

Assets			
CURRENT ASSETS:			
Cash		19580.71	
Notes Receivable		2725.45	
Accounts Receivable	29709.42		
Less Reserve for Doubtful Accounts	298.10	29411.32	
Mdse. Inventory, October 31, 192		15273.90	
Branch Store Inventory, October 31, 192		4692.86	
Accrued Interest Earned		24.65	
Total Current Assets			71708.89
FIXED ASSETS:			
Office Equipment	600.00		
Less Reserve for Depreciation	50.00	550.00	
Store Fixtures	1450.00		
Less Reserve for Depreciation	185.00	1265.00	
Total Fixed Assets			1815.00
DEFERRED CHARGES TO OPERATION:			
Office Supplies		253.60	
Unexpired Insurance		85.00	
Total Deferred Charges to Operation			338.60
TOTAL ASSETS AND DEFERRED CHARGES			73862.49
Liabilities and Proprietorship			
CURRENT LIABILITIES:			
Notes Payable		7000.00	
Accounts Payable		9186.42	
Accrued Rent		300.00	
Accrued Wages		649.60	
Total Current Liabilities			17136.02
PROPRIETORSHIP:			
Capital Stock Issued and Outstanding		50000.00	
Surplus		6726.47	
Total Proprietorship			56726.47
TOTAL LIABILITIES AND PROPRIETORSHIP			73862.49

The capital stock of the H. R. Judson Corporation consists of 500 shares of stock, par value $100.00, owned by the following: F. A. McArthur, 100 shares; D. W. Stokes, 50 shares; J. K. Kincaid, 75 shares; E. P. Ramey, 25 shares; C. M. Derrick, 50 shares; C. Vance, 40 shares; J. J. Nolan, 50 shares; H. S. Gordon, 35 shares; Roy Sheldon, 15 shares; E. Westover, 60 shares. At the annual meeting of the stockholders October 31, it is agreed to dissolve the corporation; the proper legal steps are taken and the charter is canceled. The first four stockholders decide to continue the operation of the business as a partnership. All of the stockholders are to accept $125.00 per share in settlement for their stock, the retiring stockholders to be paid in cash. The difference between the purchase price of the stock and the capital and surplus is to be treated as goodwill. Each of the four partners invests $7,500.00 in cash in addition to his interest in the assets as shown by the number of shares he owns in the corporation.

Make in journal form the entries for (a) the transfer of the assets and liabilities of the corporation to the partnership; (b) the additional investment of the four partners; and (c) the transactions with the retiring stockholders.

Exercise No. 118, Entries for Donated Stock.

May 10 the stockholders of the Adams Manufacturing Co. donated $20,000.00 (200 shares) of common stock and $10,000.00 (100 shares) of preferred stock to the corporation to be sold by it to meet maturing obligations.

May 15. Gave the A. L. Crim Company a check for $2,500.00, 25 shares of donated preferred stock, and 50 shares of donated common stock, in settlement for a past-due account amounting to $8,750.00. Preferred stock is accepted by him at $90.00 and common stock at $80.00.

16. Received cash for a sale of 50 shares of donated common stock at $77.50.

20. Received cash for a sale of 40 shares of donated preferred stock at $86.25.

30. Received cash for a sale of 50 shares of donated common stock at $77.25 and 30 shares of donated preferred at $86.20.

June 25. Sold 40 shares of donated common stock at $91.40.

1. Record these transactions in journal form.

2. Post to ledger accounts.

3. Indicate on journal paper the method of showing the proprietorship on the Balance Sheet prepared under date of December 31, assuming that the authorized common stock is $250,000.00 and the authorized preferred stock, $250,000.00, with $200,000.00 of each subscribed and paid for, and that the Surplus account shows a credit balance of $16,408.50.

Exercise No. 119, Treasury Stock.

January 7 the Arnold Shoe Company sold for cash to H. F. Ritter, one of its traveling salesmen, ten shares (par value, $100.00) of capital stock at $113.00, with the understanding that the corporation would buy the stock back at any time he wished to discontinue his connection with the corporation. He paid $500.00 cash, the balance to be deducted from his commission at the end of the year. With this agreement, the stock was issued.

October 5 H. F. Ritter surrendered half of his stock at $111.00 and received credit on his account for this amount, less six per cent interest on the amount of his indebtedness from the date he purchased the stock.

December 31 H. F. Ritter was credited with $216.50, commission on sales.

January 5 the company paid H. F. Ritter $200.00 cash on account of commission.

March 1 the company gave H. F. Ritter a check for balance due him on account and for his five shares of stock at $110.00.

Record these transactions in journal form. An account with Premium on Capital Stock will show a record of the amounts received and paid in excess of the par value.

Chapter XXXVI

VOUCHER ACCOUNTING AND CASH JOURNAL

The Purpose of this Chapter is to explain (a) the voucher system of accounting and (b) the cash journal. Many business concerns require a voucher for each cash payment; hence, the student of bookkeeping should be familiar with the method of issuing the vouchers and the checks given in payment of them. The cash journal is very popular with practicing bookkeepers, because of the time saved in proving cash and posting.

§ 350. The Voucher is a written statement, usually prepared on a printed form, containing detailed information regarding a purchase of merchandise, material or service; receipts and canceled checks are sometimes referred to as vouchers. A voucher is prepared for each purchase of merchandise or material at the time the purchase is made, and for labor or other service at the time payment is made. The blank forms prepared for vouchers are usually printed on both sides; full information in regard to the obligation is given on one side, and the accounts affected are indicated on the other side. The voucher may be sent with the check for receipt or it may be folded and the canceled check filed with it. Since it is not always possible to secure return of the voucher sent with the check, even when it is accompanied by a stamped return envelope, it is customary to retain the voucher in the office and file the canceled check with it; this form of voucher

VOUCHER JACKET

COWDEN BUICK COMPANY

No. 22 Date of Issue May 13, 19 Date Due June 1, 19

In Account with Fisk Tire Company,

Address 816 Main Street, City, for the following:

Invoice Date			DESCRIPTION		Amount	
May	12	4	31 x 4 Cord Tires, Type S. S.	18.45	73	80
		2	31 x 4 Fabric " " Cl.	12.90	25	80
		1	33 x 4 Cord " " S. S.		21	25
		12	31 x 4 Cord Tubes	2.15	25	80
		12	31 x 4 Fabric "	1.95	23	40
		3	32 x 4 Cord "	2.25	6	75
		8	33 x 4 " "	2.35	18	80
		6	34 x 4 " "	2.50	15	00
					210	60

M. L. Cowden, President — V. B. Schmitt, Foreman — D. B. Crane, Bookkeeper

Illustration No. 146, Inside of Voucher or Voucher Jacket.

EXPLANATION. This voucher jacket was prepared for an invoice of tires and tubes for which payment is to be made according to the terms of the invoice as shown on the voucher.

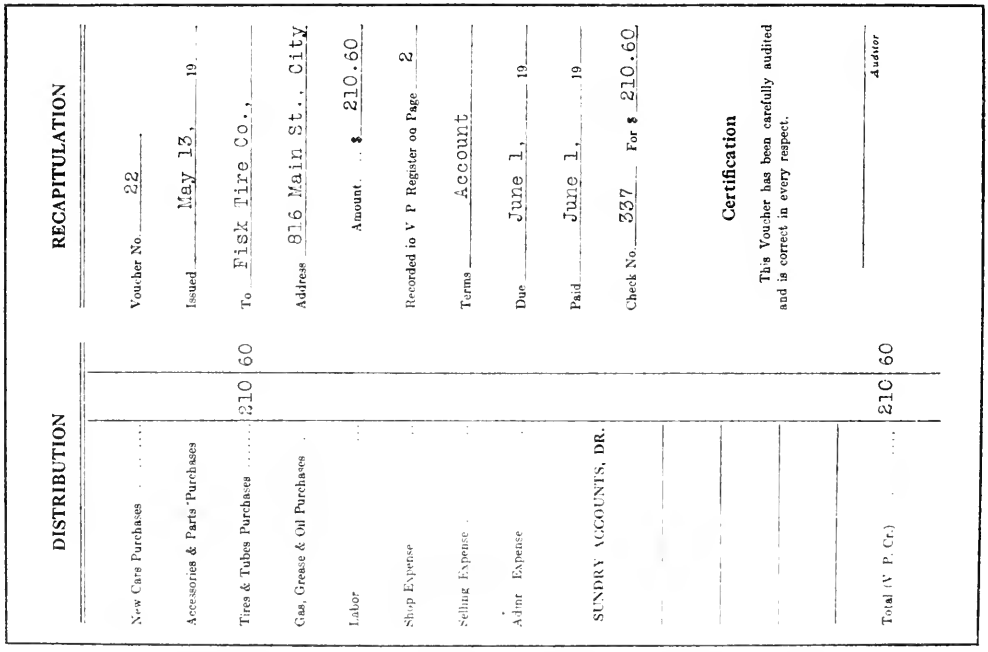
is sometimes referred to as a "voucher jacket" because the voucher is folded and the check placed inside. The number of the voucher is indicated on the check so that the auditor may know the voucher to which it is applicable. Illustrations Nos. 146 and 147 show one of the vouchers required in the garage business illustrated in the practice set separate from the text.

Formerly it was the custom to print the check and voucher on the same form so that the one who received it would be sure to return the voucher with his receipt. This practice is not followed so extensively at present because of the confidential information usually contained in the voucher and the inconvenience to the bank clerks in handling large voucher checks.

§ 351. The Voucher System of Recording Purchases. It is necessary for every business to make purchases of merchandise, material and service. Where the operations of the business are limited to a few transactions of this nature, the management can personally supervise the expenditures; but, where the transactions are numerous and performed by subordinates, it is necessary to provide a control over the expenditures. One of the best methods devised is to require a voucher for each purchase.

The voucher prepared for each purchase is usually signed by at least two individuals, (a) the one authorized to make the purchase and (b) the one who verifies the merchandise, material or service purchased, described in the voucher. Each voucher is numbered consecutively and, after it has been paid, is filed in the order of the number; vouchers issued for future payments should be filed under the due date to insure payment when due. Each voucher is recorded in the voucher payable register at the time it is issued.

There is in reality no voucher method of keeping books, but the use of vouchers in connection with purchases is sometimes referred to as the "voucher method" or "voucher system." When the so-called "voucher system" is used, all purchases, either for cash or on account, are recorded in the voucher payable register from the information given on the voucher; this permits the proper distribution in one book of original entry and thus avoids duplication of special columns where purchases on account are recorded in one book and cash purchases in another.



DISTRIBUTION

New Cars Purchases		
Accessories & Parts Purchases		
Tires & Tubes Purchases	210	60
Gas, Grease & Oil Purchases		
Labor		
Shop Expense		
Selling Expense		
Admr Expense		
SUNDRY ACCOUNTS, DR.		
Total (V P Cr.)	210	60

RECAPITULATION

Voucher No. 22

Issued May 13, 19

To Fisk Tire Co.,

Address 816 Main St., City

Amount $ 210.60

Recorded in V P Register on Page 2

Terms Account

Due June 1, 19

Paid June 1, 19

Check No. 337 For $ 210.60

Certification

This Voucher has been carefully audited and is correct in every respect.

Auditor

Illustration No. 147, Outside of Voucher or Voucher Jacket.

EXPLANATION. The accounts affected by the purchase described on the inside of the voucher are indicated by entering the amounts on the line with the name of the account.

§ 352. **The Voucher Payable Register** is a book of original entry ruled to contain a record of each voucher issued. The ruling provides columns for all the information written on the voucher so that the record of each voucher may be made on one horizontal line. When the voucher method of bookkeeping is used, it is not customary to open accounts with those from whom merchandise, material, or service is purchased, but to record all obligations for purchases in the Vouchers Payable account. The method of making the record is further explained in connection with Illustration No. 148.

§ 353. **The Cash Journal** is a combination of the cash book and the general journal; if desired, the purchases journal, sales journal, notes receivable journal, and notes payable journal may also be combined in the cash journal. The purpose of the cash journal is to save time in proving cash and posting, and to avoid a repetition of special columns in the books of original entry. When transactions of similar nature occur frequently, it is better to record them in a special journal and transfer the totals only to the cash journal, daily, weekly, or monthly. Illustration No. 149 shows a cash journal with fifteen amount columns, containing a record of part of the transactions in the practice set (garage business) which is separate from the text. The following discussion explains the various columns.

1. *Merchants National Bank.* The title of these two columns indicates that all cash received is deposited in the bank and all cash payments made by check. If a part of the currency received is used for cash payments, additional columns for "Cash, Dr." and "Cash, Cr." would be necessary. The balance at the beginning of the month is entered in the "Name of Account" column because the total of the "Bank, Dr." column is posted to the account with the bank in the general ledger and this account already shows the cash balance.

The cash received in each transaction is entered in the Bank Dr. column and the credit indicated by the entry in the column or columns at the right. The amount of each check issued is entered in the Bank Cr. column and the debit indicated by the entry in the Vouchers Payable column at the right. The difference between the total of the Bank Dr. column plus the balance on hand at the beginning of the month, and the total of the Bank Cr. column should be the balance of the cash in the bank as shown by the check stub, or in the bank and on hand. To prove cash it is not necessary to add all the columns of the cash journal but it is customary to do so because the credits and debits for the cash received and paid are entered in these columns and the proving of cash also proves their correctness. The method of proving is illustrated by the small figures in Illustration No. 149.

2. *General Ledger.* Two columns are provided, one for debits and the other for credits. Only those amounts affecting accounts for which special columns are not provided are entered in these columns; where transactions affecting one account are of sufficient frequency, a special column is provided.

3. *Accounts Receivable Ledger.* Two columns are provided for the Accounts Receivable account in the general ledger because the transactions with customers are of sufficient frequency to require the use of these columns. When a transaction affects the debit of an account with a customer, the amount is recorded in the "Accounts Receivable, Dr." column, and when a transaction affects the credit of an account with a customer, the amount is recorded in the "Accounts Receivable, Cr." column; the name of the customer is written in the "Name of Account" column. When transactions affecting the accounts with customers are of frequent occurrence, it is advisable to record the debits and credits each in a special journal and transfer the total to the cash journal for posting.

The cash journal is popular with bookkeepers because of the time saved in recording transactions, but it is not so popular with auditors because of the difficulty of auditing the transactions recorded in it. Perhaps one reason for this difficulty in auditing is the recording of more than one transaction on one horizontal line. If the bookkeeper will record each transaction on a separate line and explain it, the difficulty of auditing the cash journal will be eliminated.

Vouchers Payable Register

Date	Vch. No.	Name	Address	For	When & How Paid: Date	When & How Paid: Ck. No.	Vouchers Payable Cr
'02 May 2	1	Buick Motor Car Co	Flint, Mich	Bal of acct.	5/8 $500	319	1124 60
12	20	The G. A. Gordon Co.	Columbus, O.	Invoice 5/9	May 13	314	5 20
13	21	The O. J. Conroy Co	City	" 5/11	May 13	315	30
13	22	Fisk Tire Co	City	" 5/12			210 60
14	23	Foster Advt. Co.	City	" 5/7	May 14	316	25
14	24	Paragon Refining Co	City	" 5/10			6 40
14	25	Old Line Auto Works	City	" 5/12	May 27	331	35
14	26	Pay-Roll		Repair Dept.	May 14	317	115
31	41	Pay-Roll		Office	May 31	336	1005
							@ 10 174 65

Illustration No. 148, Left Page of Voucher Payable Register.

EXPLANATION. The ruling provides columns for all the information written on each voucher, thus permitting the record to be made on one horizontal line. The amount of each voucher is entered in the "Vouchers Payable, Cr." column and in the column or columns which show the account or accounts debited. At the end of the month the Vouchers Payable account in the general ledger is credited with the total vouchers issued during the month.

4. *Vouchers Payable.* A debit column only is provided for Vouchers Payable because the credits to this account in the general ledger are posted from the voucher payable register. If it is desired to post all transactions from the cash journal, transferring the totals from the voucher payable register either daily or weekly, it will be necessary to provide a credit column for Vouchers Payable and debit columns for the expenses as in the voucher payable register. The better practice is to post from both the voucher payable register and the cash journal.

5. *Used Cars.* This column is applicable to the use of a garage which acts as sales agent for automobiles and accepts used cars as part payment for new cars. The exchange value of each used car is entered in the debit column, the credit for this being included in the entry in the "New Cars Sales, Cr." column. The debits for purchases are recorded in the entries in the voucher payable register, but since it is not customary to pay cash for used cars, the debit to this account will not be supported by a voucher unless it be a journal voucher issued by the management, and this is not entered in the voucher payable register.

6. *Sales Columns.* Seven columns are provided for sales; the use of each is indicated by the name of the account written at the top. The cost of the material sold is recorded in the voucher payable register. The debit for each sale is recorded in one of the columns at the left. Thus, if cash is received for a tire, the amount is entered in the "Bank, Dr." column and in the "Tires and Tubes Sales, Cr." column; if a tire is sold to a customer on account, the amount is entered in the "Accounts Receivable, Dr." column and in the "Tires and Tubes Sales, Cr." column.

7. *Repair Order Number.* Each repair order is given a number, and, when completed, the Repairs account is credited for the amount of the labor. The number of the repair order is entered in the "Remarks" column to facilitate auditing.

8. *Remarks.* This is for any special explanation of the transactions which will be of assistance in interpreting the record, either by the management or by

Voucher Payable Register

New Cars Purchases, Dr	Acc'd Parts Purchases, Dr	Tires & Tubes Purchases, Dr	Gas, Grease & Oil Pur., Dr	Labor, Dr	Shop Exp. Dr	Sell. Exp. Dr.	Admr Exp. Dr	Sundry Accounts, Dr. Amount	Name of Account	L.F
								112 46	Coats Payable	3
	3 20							30	Turner Seat	4
		216 00				25				
			14 40					35	U. S. Purchases	10
				60	53					
						350	625			
(2) 4465 29	(1) 153 03	(3) 404 40	(13) 397 37	(5) 240	(4) 213 00	(15) 405 37	(15) 667 40	(5) 3139 55		

Illustration No. 148, Right Page of Voucher Payable Register.

EXPLANATION. Each account affected by the vouchers issued is debited with the total of the amounts entered in the column provided for the account. No accounts are opened with the individuals or business concerns to whom vouchers are issued. When a check is issued in payment of a voucher, the Vouchers Payable account is debited by entering the amount in a column provided for "Vouchers Payable, Dr." in the cash book or cash journal.

the auditor. Care should be used by the bookkeeper in explaining the transactions so as to avoid confusion. Where the entry is supported by a journal voucher, the number of this voucher should be indicated in the "Remarks" column and the journal voucher filed for reference. Accountants sometimes refer to the cash journal as the "hash" journal because of confusion in recording the transactions; much of this confusion could be avoided by a careful explanation in the "Remarks" column.

9. *Method of Recording Transactions.* The equality of debits and credits is maintained in the recording of transactions in the cash journal the same as in the elementary journal used at the beginning of the course. To insure the equality of debits and credits, transactions which affect more than two accounts should be recorded in journal form on scratch paper before the entry is made in the cash journal.

When cash is received through the performance of a transaction, the Cash account is debited by entering the amount in the "Bank, Dr." column, and the proper account or accounts are credited by entering the amount in the column or columns at the right. When cash is paid through the completion of a transaction, the Cash account is credited by entering the amount in the "Bank, Cr." column, and the Vouchers Payable account is debited by entering the amount in the "Vouchers Payable, Dr." column at the right. When credit is extended to a customer, his account is debited by entering the amount in the "Accounts Receivable, Dr." column, and the Sales account or accounts credited by entering the amount in the "Sales, Cr." column or columns affected. Should a customer return a part or all of the merchandise purchased and receive credit for its value, the Sales Returns account is debited by entering the amount in the "General Ledger, Dr." column, and the customer's account is credited by entering the amount

(*Concluded on page 352*)

Cash Journal

May 1902

Merchants Nat'l Bank Dr	Merchants Nat'l Bank Cr	Date	LF	Name of Account	Check No	General Ledger Dr	General Ledger Cr	Accts Rec Ledger Dr	Accts Rec Ledger Cr
		2	✓	Balance, $7,262.70					
25		2	2	Mc Gregor-Noe Hdwe Co					25
	14.50	2	✓	B.F. Goodrich Rubber Co	305				
43.45		2	✓	Repairs					
74.45		2	✓	Storage					
500		3	✓	Used Car Purchases					
12.50		14	2	Notes Receivable		517.43			
	25	14	✓	Foster Advertising Co	316				
35.54		14	1	Fred Holt					35.54
		14	✓	Used Car Purchases					
44.40		14	✓	Repairs					
56.80		14	✓	Storage					
325.72	115.40	14	✓	Pay-Roll 632.02	317	54.43		8.45	2.14
		16	15	Selling Expense		7.30			
329.50		18	2	Notes Receivable		1.70			
	10	18	✓	L. Macke	318				
	500	18	✓	Buick Motor Car Co	319				
6.80		18	✓	Repairs					
		19	3	G. C. Bridges				18.10	
		21	2	L. A. Landers				5.75	
31.04		21	✓	Storage					
1420.40	895.35	21	✓	Pay-Roll 5250.00	326	772.75	853.24	4.55	25.14
652.04		23	2	Notes Receivable			639.50		
		23	6	Interest Earned			12.79		
		23	15	Administrative Expense		.25			
	47.67	31	✓	Petty Cash	335				
	1005	31	✓	Salaries 4075.95	336				
10837.05	9024.70					1715.46	1504.63	40.55	256.89

Illustration No. 149, Cash Journal, Left Page.

EXPLANATION. The cash balance at the beginning of the month is entered in the "Name of Account" column because this already appears in the ledger on the debit side of the Merchants National Bank account and if entered in the Bank Dr. column might be posted again. When proving cash, the total receipts (Bank Dr. column) is written on scratch paper and the balance on hand at the beginning of the month is added to this amount before deducting the payments (Bank Cr. column). The credit for each amount entered in the Bank Dr. column and the debit for each

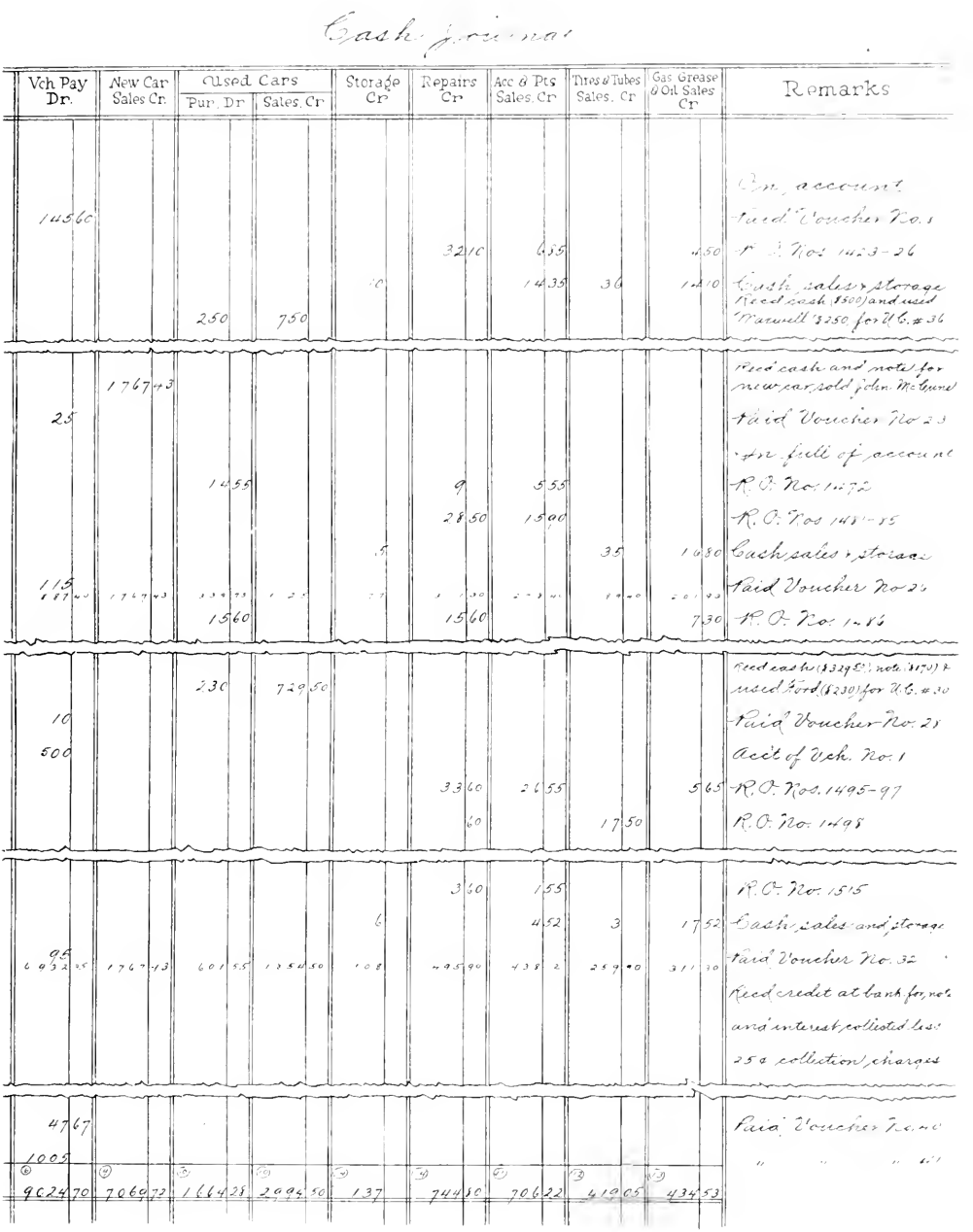

Cash Journal
Vch Pay Dr.
New Car Sales Cr.
Used Cars
Pur. Dr
Sales Cr
Storage Cr
Repairs Cr
Acc & Pts Sales Cr
Tires & Tubes Sales Cr
Gas Grease & Oil Sales Cr
Remarks
On account
Paid Voucher No. 1
R. O. Nos. 1423-26
Cash sales storage
Rec'd cash $500 and used Maxwell $250 for U.C. # 36
Rec'd cash and note for new car sold John McGuire
Paid Voucher No 23
In full of account
R. O. No. 1472
R. O. Nos. 1481-85
Cash sales storage
Paid Voucher No 24
R. O. No. 1486
Rec'd cash ($3245) note ($175) & used Ford ($230) for U.C. # 30
Paid Voucher No. 25
Acct of Vch. No. 1
R. O. Nos. 1495-97
R. O. No. 1498
R. O. No. 1515
Cash sales and storage
Paid Voucher No. 32
Rec'd credit at bank for note and interest collected less 25¢ collection charges
Paid Voucher No. 40

Illustration No. 149, Cash Journal, Right Page.

amount entered in the Bank Cr. column are recorded in one or more of the columns at the right of the name of the account. Transactions which do not involve the receipt or payment of cash are recorded in the columns at the right of the name of the account. The breaks indicate a number of entries omitted. The small figures above the totals show the page of the ledger on which the account to which the amount is posted appears. This amount is posted to the debit or credit side of the account as indicated by "Dr." or "Cr." at the top of the column.

in the "Accounts Receivable, Cr." column; it will be necessary to write "Sales Returns" in the explanation column on a line with the amount entered in the "General Ledger, Dr." column, and the name of the customer on a line with the amount entered in the "Accounts Receivable, Cr." column. Each transaction should be recorded on one or more lines; two transactions should never be recorded on one line. A full explanation of the transaction should be made in the "Remarks" column at the right; this is provided for the explanation of the transaction in the same manner as space is provided for an explanation of each transaction in a book of original entry.

§ 354. **Sales Journal.** When the individual sales are recorded in a special sales journal, the total only of this journal is transferred to the cash journal, either weekly or monthly depending on the desires of the management. Illustration No. 150 shows the form of sales journal that would be required to record the transactions in the practice set, provided these occur with sufficient frequency to require the use of this special journal.

Sales Journal

Date	L. F.	Account Debited	Address	Terms	Accts. Rec. Dr.	Acc. & Pts. Sales Cr.	Tires & T. Sales Cr.	G., G. & O. Sales Cr.	Storage Cr.	Repairs Cr.	Repair Order No.

Illustration No. 150, Form of Sales Journal.

§ 355. **Cash Receipts Journal.** When transactions in which cash is received from customers on account or in full of account occur with sufficient frequency to justify the use of a cash receipts journal in which to record them, the total only is transferred to the cash journal at the time each deposit is made, or at such other time as the management may direct. Illustration No. 151 shows the form of cash receipts journal which would be required to record the cash received from customers in the practice set when these are not entered direct in the cash journal.

Customers' Cash Receipts Journal

Date	L. F.	Account Credited	Explanation	Accounts Receivable Cr.	Merchants Nat'l Bank Dr.

Illustration No. 151, Form of Cash Receipts Journal.

GARAGE SET

This is a practice set without vouchers consisting of the transactions for two months, performed by the Cowden Buick Company, a corporation engaged in operating a garage. The transactions are separate from the text and are included with the books of account necessary to record them. The purpose of this set is to provide practice in the voucher method of bookkeeping and in recording transactions in the cash journal.

Appendix A

SINGLE ENTRY BOOKKEEPING

The Purpose of this Appendix is to explain and illustrate Single Entry bookkeeping, sometimes referred to as a "method" of keeping books. The information given will be of assistance to the student who may be required to keep books for one who thinks there is a Single Entry method; it will also be useful if the student is called upon to change from this so-called method to Double Entry.

§ 356. Single Entry Bookkeeping. Bookkeeping is the systematic recording of business transactions as explained in § 8. When the values received and the values parted with in each transaction are recorded, the method is usually referred to as "Double Entry." Single Entry bookkeeping is best defined as any method that is not Double Entry. This means that in Double Entry bookkeeping the values received and the values parted with are always recorded, but in Single Entry the values received and the values parted with may be recorded in some transactions, but in others only the values received or the values parted with are recorded.

§ 357. Comparison. In Single Entry the record may be made according to the wishes of those interested, and any desired accounts kept; in Double Entry the record and accounts kept must conform to certain principles, which can not be changed; the name of an account might be changed, but its real meaning must remain the same. In Single Entry, the bookkeeper has no check on his accuracy in posting, footing accounts in the ledger, and making the Statement of the Business; in Double Entry he proves the postings and footings by the Trial Balance and the net profit through the Balance Sheet and Statement of Profit and Loss.

The advantages of Double Entry are so apparent that this method is used by every up-to-date business man who employs a bookkeeper, and by many who keep their own books. The reason Single Entry is used in many cases is that the one who keeps the books knows nothing of the many advantages of Double Entry.

§ 358. Books of Account. Any book used with the Double Entry method may be used with Single Entry; but the day book, cash book, and ledger are the most popular with those who claim to "know" the latter method. Of course, they do not know any method, but only know what they want their books to show, and can get the desired results by using these three books.

§ 359. Day Book. This is a book of original entry. All transactions, except those in which cash is received or paid, are entered in this book in the order in which they occur. The two money columns do not indicate debits and credits, hence it is necessary to write Dr. and Cr. (abbreviation of debit and credit) after the name of the account. This shows to which side of the account in the ledger the amount is to be posted. Amounts to be posted are placed in the second column on the same line as the name of the account. Illustration No. 152 shows the form of day book to be used.

§ 360. Single Entry Cash Book. Any desired form of ruling may be used. The form given in Illustration No. 153 shows one very popular with those who keep a cash book in connection with a Single Entry set of books. The ruling is similar to the ordinary journal; receipts are entered in the first column, and payments in the second column. When the cash book is ruled at the end of the month, the balance is entered in the credit column, the word "Balance" written at the left, the two columns ruled, and the balance brought down, as in Illustration No. 153.

§ 361. Ledger. This book may be similar to any ledger used with a Double Entry set of books; that is, it may have the regular ledger ruling or any special ruling adapted to the needs of the business. In every case it must be ruled with

two money columns, one for the debit amounts, and one for the credit amounts. Some blank book manufacturers make a book which is labeled "Single Entry Ledger." This is ruled like the day book and provided with an index. This form is used when the day book and cash book are omitted, and the transactions are entered direct in the ledger.

December 2, 192

W. H. La Rue		Cr.	1250
Notes Payable	(60 days)	Cr.	500
Notes Payable	(90 days)	Cr.	500

Bought stationery stock for $2250.00 Paid cash $1000.00; gave two notes, $500.00 each, due in 60 and 90 days; balance to be paid before January 1st.

3

Belknap Stationery Co., Louisville,		Cr.	150

Bought merchandise on account per invoice of this date

3

C. G. McClure, City		Dr	4250
1 Section, Base and Top Y & E. File	25		
1 gross Note Books	1750		

Illustration No. 152, Single Entry Day Book.

Cash Book

				Receipts	Payments
19 Dec.	1	C. W. Ogden, Cap.	Investment	1500	
	2	W. H. La Rue	Part payment stock		1000
	5	✓ Gouffon Transfer Co	Freight and drayage		1487
	6	W. H. La Rue	On account		150
		✓ Expense	Employees' wages		6540
		✓ Sales	Sundry cash sales	20409	
	10	University School	In full of account	175	
	11	✓ Expense	Light, phone and stamps		2460
	13	Graham Paper Co	In full of account		19642
		✓ Discount	On above	589	
*					
	31	✓ Gouffon Transfer Co	Freight and drayage		6275
				382533	272573
				382533	382533
19 Jan.	1	✓ Balance		109960	

Illustration No. 153, Single Entry Cash Book.

*The break indicates a number of entries omitted.

TRANSACTIONS FOR DECEMBER.

Record the following transactions in the Single Entry day book and cash book, and post to the ledger when instructed. Accounts will be kept with Notes Receivable, Notes Payable, C. W. Ogden Capital, persons from whom merchandise is purchased on account, and persons to whom merchandise is sold on account.

1. C. W. Ogden invests $1,500.00 in the retail stationery and office supplies business.

Enter in the cash book as in Illustration No. 153.

2. Bought from W. H. LaRue, City, stock of stationery and office supplies for $2,250.00, paying cash $1,000.00, two notes of $500.00 each, due in 60 and 90 days, balance to be paid before January 1st.

Enter in the day book and cash book as in Illustrations Nos. 152 and 153.

3. Bought from Belknap Stationery Co., Louisville, on account, stationery per invoice of this date, $150.00.

Enter in the day book as in Illustration No. 152.

Sales on account: C. G. McClure, City, 1 section, base, and top, Y. & E. files, $25.00; 1 gross note books, $17.50. University School, University Park, 1 multigraph, $170.00; 1 doz. ribbons, $5.00.

Enter in the day book as in Illustration No. 152.

4. Bought from Graham Paper Co., St. Louis, stationery per invoice of the 3d, $196.42; terms, 3/10, n/30.

The terms indicate that 3% may be deducted if payment is made within ten days.

5. Paid Gouffon Transfer Co. $14.87, freight and drayage on above goods.

Enter in the cash book as in Illustration No. 153. No account is kept with Freight and Drayage, hence the check mark (√) in the L. F. column.

6. Sale on account: C. J. McDaniels, City, 1 ledger, $3.50; 1 doz. pencils, 75c; 2 boxes typewriting paper at $1.00; 1 dictionary, $14.00.

Paid W. H. LaRue $150.00 on account;

Paid employees' wages to date, $65.40.

Cash sales to date, $204.09.

Post the entries in the day book and cash book. Each amount in the second column of the day book is posted to the debit or credit side of the account written on the same line with it; the debit or credit is indicated by "Dr." or "Cr." Each amount in the first column of the cash book is posted to the credit side of the account written on the same line with it, unless it has a check mark in the L. F. column; each amount entered in the second column is posted to the debit side of the account written on the same line with it, unless it has a check mark in the L. F. column. Allow one-fifth of a page for each account.

8. Bought from American Stationery Co., Cincinnati, merchandise per invoice of the 6th, $264.75; terms, 5/10, n/60.

9. Sale on account: R. R. Oglesby & Co., Hamilton, 1 typewriter, $100.00; 1 desk, $35.00; 5 gross note books at $14.00; 2 sections Y. & E. files with top and base, $64.00.

10. Received $175.00 from University School in full of account.

11. Paid electric light bill, $13.60; phone rent, $6.00; and stamps, $5.00.

Sales on account: Ormendorff Bros., City, 1 set of Dickens, $70.00. City Electric Co., City, 1 gross tablets, $17.00; 3 sections Y. & E. files at $14.00; 1 desk, $36.00; 5 ink wells at 25c.

12. Bought from Yawman & Erbe Mfg. Co., Rochester, merchandise per invoice of the 10th, $136.42; terms, 60 days. Bought from Johnston Bros., City, on account, 5 gross mucilage at $2.50.

13. Paid Graham Paper Co. amount due, less discount.

Enter in the cash book as in Illustration No. 153.

(Continued on page 356)

(*December Transactions—Continued from page 355.*)

13. Sales on account: M. B. Arnstein, City, 2 gross tablets at $17.75; 1 desk, $39.50; 2 sections Y. & E. files at $14.00. Bean, Waters & Co., City, 3 gross tablets at $14.00; 1 box typewriting paper, $1.00.

Paid cash as follows: C. W. Ogden, private use, $50.00; employees' salaries for the week, $86.45; Gouffon Transfer Co., freight and drayage, $32.65.

Cash sales to date, $291.76.

Post from the day book and cash book.

15. Collected from the following parties: C. G. McClure, $42.50; C. J. McDaniels, $10.00; Ormendorff Bros., $50.00; City Electric Co., $70.00.

Sales on account: C. G. McClure, 5 gross tablets at $14.00; 1 desk, $57.50. H. O. Nelson, City, 1 typewriter, $100.00; 1 gross penholders, $5.00; 5 boxes typewriting paper at $1.00; 10 lbs. writing paper at 25c.

16. Paid American Stationery Co. $175.00 on account.

This is subject to 5% discount as per terms. Be sure to debit them with the correct amount.

Sale on account: Central Business College, City, 5 gross note books at $14.00; 1 gross tablets, $30.00; 1 gross penholders, $4.00; 8 gross ink at $3.75.

17. R. R. Oglesby & Co. gave us their note due in 30 days for $200.00 to apply on account.

Bought from Yawman & Erbe Mfg. Co., Rochester, merchandise per invoice of the 11th, $1,254.78; terms, 60 days.

18. Sales on account: C. G. McClure, 3 typewriters at $100.00; 1 gross pens, $5.00; 1 doz. ribbons, $7.50. W. R. Austin, Wilmington, 1 journal, $6.00.

Bought from Graham Paper Co., stationery per invoice of the 15th, $136.49; terms, 3/10, n/30.

19. Accepted Yawman & Erbe Mfg. Company's 60-day draft in full of invoice dated December 10th.

Paid W. H. LaRue $50.00 on account.

Sales on account: Ormendorff Bros., 1 desk, $35.00; 1 gross note books, $18.00; 3 sections Y. & E. files at $14.00. W. H. Pedigo, Danville, 1 desk, $45.00; 1 chair, $12.50; 3 gross tablets at $17.50; 100 blotters, 25c.

20. Bought from Yawman & Erbe Mfg. Co., merchandise per invoice of the 18th, $234.75; terms, 4/10, n/30.

Cash sales to date, $408.50.

Withdrew $75.00 for private use; paid employees to date, $92.75.

Post from the day book and cash book.

22. Collected from customers as follows: M. B. Arnstein, in full; Bean, Waters & Co., in full; C. G. McClure, $100.00; Central Business College, $100.00,

Discounted R. R. Oglesby & Co.'s note at the bank, receiving credit for the face value, less $3.00 discount.

Enter face of the note in the first, and discount in the second column of the cash book.

23. Sale on account: University School, 3 gross note books at $17.00; 2 gross penholders at $5.00; 5 gross pencils at $4.00; 100 lbs. writing paper at 20c; 1 ledger, $2.75.

Paid W. H. LaRue balance due him.

24. Bought from American Stationery Co., merchandise per invoice of the 22d, $186.75; terms, 5/10, n/60.

(*Concluded on page 357.*)

(*December Transactions—Continued from page 350.*)

24. Sales on account: Central High School Supply Store, City, 2 gross journals at $20.00; 2 gross ledgers at $20.00; 5 gross note books at $14.00; 10 gross penholders at $5.00; 5 gross pencils at $4.55; 2 gross ink at $4.00. City Electric Co., 1 duplicator, $75.00.

Sent Graham Paper Co. a check in full of account, less discount.

26. Central High School Supply Store settled their account in full, less 2%, per contract.

W. H. Pedigo gave us his note due in 30 days in full of account.

Paid Belknap Stationery Co., $75.00 on account.

Bought from Standard Stationery Co., Cincinnati, merchandise per invoice of the 23d, $62.75; terms, 60 days.

27. Sent Yawman & Erbe Mfg. Co. a New York Exchange in full of invoice dated the 18th, less 4% discount. The bank charges 50c for issuing the exchange.

Sale on account: H. O. Nelson, 1 typewriter with special keyboard, $105.00.

29. Received from H. O. Nelson a 60-day note in full of account.

30. Bought from Chatfield & Woods, City, merchandise per invoice of the 27th, $169.25; terms, 3/10, n/60.

31. Cash sales to date, $268.15.

Paid employees to date, $86.27; rent for the month, $50.00; Gouffon Transfer Co., bill for freight and drayage to date, $62.75.

Post all entries to date, and make a Statement of the Business as explained in § 362 and Illustration No. 154 using the following inventories: Merchandise in stock, $2,565.87; Office Equipment, consisting of desks, chairs, safe, etc., $200.00. Close the ledger as explained in § 363, and make the opening entry in the journal to change to Double Entry as explained in § 364 and in Illustration No. 155. When this is completed, post the entries to the ledger, take a Trial Balance and present all books for approval.

§ 362. Single Entry Statement. The net profit or net loss can always be ascertained whether the books are kept by Single Entry or Double Entry. To make a Single Entry statement proceed as follows: First, ascertain the value of all property on hand by taking an inventory. Second, list the assets and liabilities. As nothing but asset and liability accounts are kept, all debit balances are assets, and all credit balances, except the investment, are liabilities. Third, ascertain the difference between the assets and liabilities; this is the present worth of the business. If it is more than the net investment, there is a profit; if less, a loss. Illustration No. 154 shows the correct form of Single Entry statement.

§ 363. Closing the Ledger. As each account in the ledger, except the proprietor's Capital account, shows an asset or a liability, the proprietor's Capital account is the only one to close. It is closed in the same manner as the proprietor's Capital account in Double Entry, as explained on page 93. The profit is entered on the credit side, or the loss on the debit side, with red ink, the account ruled with single and double red lines, footed with black ink, and the "Present Capital" brought down in black ink on the credit side.

§ 364. Changing from Single to Double Entry. When it is desired to change the books from the Single Entry method to that of Double Entry, it is necessary to make a statement of the business, and close the ledger, as explained in §§ 362 and 363. A journal entry is made from this statement, debiting all accounts that show assets, and crediting those showing liabilities, and the proprietor for the investment; see Illustration No. 155. This journal entry will balance, since the total liabilities, plus the present worth of the proprietor equals the assets.

SINGLE ENTRY STATEMENT, DECEMBER 31, 19

ASSETS

Cash	1099	60		
Merchandise in stock (Inventory)	2565	87		
Office Equipment (Inventory)	200			
Ledger Accounts:				
Notes Receivable	337	66		
C. G. McClure	350			
University School	101	50		
C. J. McDaniels	12	75		
R. R. Oglesby & Co.	87			
City Electric Co.	110	25		
Ormendorff Bros.	103			
Central Business College	30			
W. R. Austin	8			
Total Assets			5005	63

LIABILITIES

Ledger Accounts:				
Notes Payable	1146	33		
Belknap Stationery Co.	95			
American Stationery Co.	276	59		
Johnston Bros.	13	75		
Yawman & Erbe Mfg. Co.	1252	38		
Standard Stationery Co.	58	80		
Chatfield & Woods	172	50		
Total Liabilities			3015	35
C. W. Ogden's Present Capital			1990	28
C. W. Ogden's Net Investment			1375	
C. W. Ogden's Net Profit			615	28

Illustration No. 154, Single Entry Statement.

It is customary to write "Inventory" in the explanation columns of the Merchandise Inventory and Office Equipment accounts, and "Balance" in the explanation column of the Cash account. After all the accounts are opened in the ledger, a Trial Balance is taken to prove that the books are in balance.

JANUARY 1, 19 ..

Cash	1099	60		
Merchandise Inventory	2565	87		
Office Equipment (Inventory)	200			
Notes Receivable	337	66		
C. G. McClure	350			
University School	101	50		
C. J. McDaniels	12	75		
R. R. Oglesby & Co.	87			
City Electric Co.	110	25		
Ormendorff Bros.	103			
Central Business College	30			
W. R. Austin	8			
Notes Payable			1146	33
Belknap Stationery Co.			95	
American Stationery Co.			276	59
Johnston Bros.			13	75
Yawman & Erbe Mfg. Co.			1252	38
Standard Stationery Co.			58	80
Chatfield & Woods			172	50
C. W. Ogden, Capital			1990	28
Assets and liabilities at the beginning of the business				

Illustration No. 155, Journal Entry to Change from Single Entry to Double Entry.

Appendix B

DIRECT METHOD OF CLOSING THE LEDGER

The Purpose of this Appendix is to explain the process of making the closing entries direct in the ledger as explained in § 60. The student should understand both methods so that he may apply either as directed.

§ 365. Closing the Ledger, as explained in § 53, is an accounting term applied to the process of transferring the net profit or net loss to the owner's Capital account at the close of a fiscal period. The process of making direct in the ledger the entries necessary to transfer the net profit or loss to the owner's Capital account is the same as with the journal entry method.

A comparison of Illustration No. 156 with the illustrations on pages 360 and 361 shows the use of the Statement of Profit and Loss as a guide in closing, and the method of making these entries. The complete accounts used in the illustrations are shown on pages 72 and 73 and are the same accounts as those used as a basis for discussing the closing by the journal entry method, pages 94–96. The ledger on pages 362 and 363 shows the accounts on pages 72 and 73 after the closing entries explained on pages 360 and 361 have been completed; these pages are the same as the accounts on pages 91–93, except that red ink is used in the closing entry in each account and the page of the ledger is shown in the folio column instead of the page in the journal.

When the direct method is used, it is customary to indicate the closing entries which require the transfer of the balance of one account to another, by the use of red ink; for this reason, the direct method of closing the ledger is sometimes referred to as the "red ink method." The date, page of the ledger to which the balance of the account is transferred, and the amount, are entered with red ink, but the same facts, when entered on the opposite side of the account to which they are transferred, are entered in black ink.

W. A. Gordon
Statement of Profit & Loss, October 31, 19

Returns from Sales:			
Gross Sales			4364
Deduct Sales Returns			1535
Net returns from mdse. sold			34865
Cost of Sales:			
Mdse. Inventory 9/1	500.00		
Add Purchases	26350	31350	
Deduct Purchases Returns	2760	31250	
" Mdse. Inventory, 10/31		14775	
Net cost of mdse. sold			16535
Gross Profit on Sales			7330
Operating Cost:			
Expense			3240
Net Profit			3590

Illustration No. 156, Statement of Profit and Loss.

The First Entry is that required to record the merchandise inventory at the close of the fiscal period. This entry is necessary because the cost of sales is ascertained on the Statement of Profit and Loss by subtracting the inventory at the close of the fiscal period from the net purchases. The Inventory account is debited to record the asset; the Purchases account is credited for the inventory to indicate the subtraction.

The illustration at the right shows the Purchases account before the first entry has been made, and the Inventory and Purchases accounts as they appear after this entry has been made.

Purchases

19			19		
Oct. 31		313510	Oct. 31		2260

Inventory

19					
Oct. 31	Merchandise Inv.	31	4	147715	

Purchases

19			19		
Oct. 31		313510	Oct. 31		2260
			31	Inventory	4 147715

The Second Entry is that required to transfer the balance of the Purchases account to the Sales account. This entry is necessary because the profit on sales is ascertained on the Statement of Profit and Loss by subtracting the cost of merchandise sold from the net sales. The Sales account is debited for the cost of sales to indicate the subtraction. Purchases is credited because this account shows the cost of sales. After this entry is made, the Purchases account will balance and be ruled, and the balance of the Sales account will show the net profit on sales as shown by the Statement of Profit and Loss.

The illustration at the right shows the Sales and Purchases accounts before the second entry has been made, and the Sales and Purchases accounts after this entry has been made.

Sales

19			19		
Oct. 31		1535	Oct. 31		2364

Purchases

19			19		
Oct. 31		313510	Oct. 31		2260
			31	Inventory	4 147715

Sales

19			19		
Oct. 31		1535	Oct. 31		2364
31	Cost of Sales	4 163535			

Purchases

19			19		
Oct. 31		313510	Oct. 31		2260
			31	Inventory	4 147715
					313510
		313510			313510

The Third Entry is that required to transfer the balance of the Sales account to the Profit and Loss account. This entry is necessary because it is customary to show in the ledger a summary of the facts shown by the Statement of Profit and Loss. The Sales account is debited because it shows the profit on sales; the Profit and Loss account is credited because this account is credited for all income. After this entry is made, the Sales account will balance and be ruled, and the Profit and Loss account will show the profit on sales.

The illustration at the right shows the Sales account before the third entry has been made, and the Sales and Profit and Loss accounts after this entry has been made.

Sales

19			19		
Oct. 31		1535	Oct. 31		2364
31	Cost of Sales	4 163535			

Sales

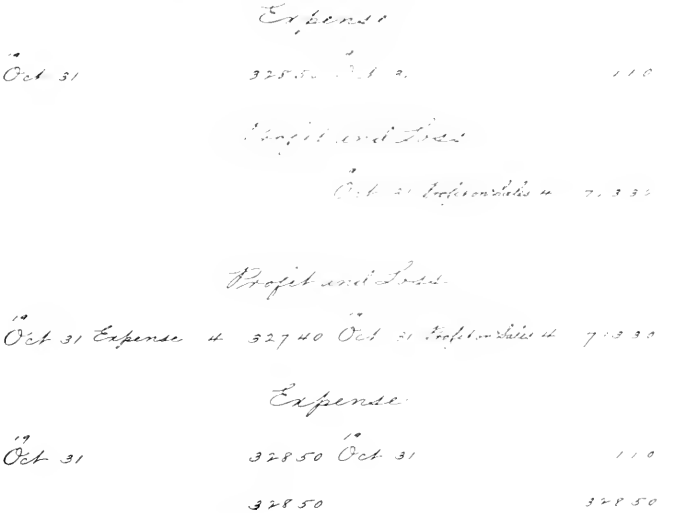
Oct. 31		1535	Oct. 31		2364
31	Cost of Sales	4 163535			
		2364 00			
		2364			2364

Profit and Loss

19			
Oct. 31	Profit on Sales	4	71330

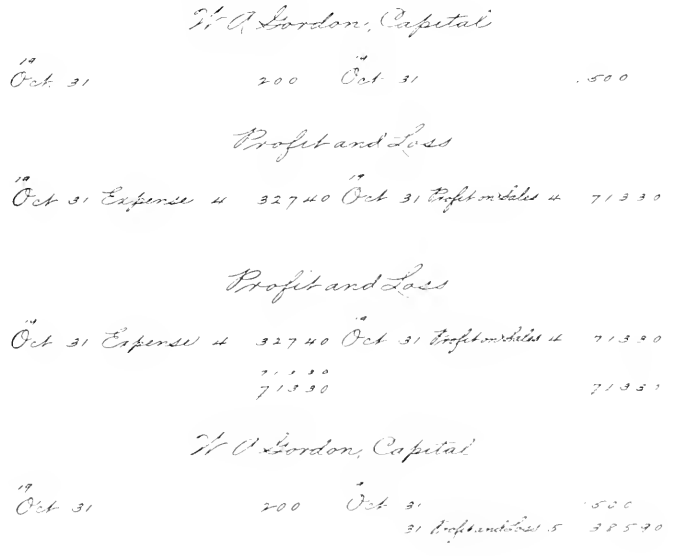
The Fourth Entry is that required to transfer the balance of the Expense account to the Profit and Loss account. This entry is necessary because the net profit is ascertained on the Statement of Profit and Loss by subtracting the expense from the profit on sales. The Profit and Loss account is debited to indicate the subtraction; the Expense account is credited because this account shows the expense for the period. After this entry is made, the Expense account will balance and be ruled and the balance of the Profit and Loss account will show the net profit.

The illustration at the right shows the Profit and Loss and the Expense accounts before the fourth entry has been made, and the Profit and Loss and the Expense accounts after this entry has been made.


Expense
Oct. 31 328.50 Oct. 31 1.10
Profit and Loss
Oct. 31 Profit on Sales 7.13.90
Profit and Loss
19 Oct. 31 Expense 327.40 19 Oct. 31 Profit on Sales 7.13.90
Expense
19 Oct. 31 328.50 19 Oct. 31 1.10
328.50 328.50

The Fifth Entry is that required to transfer the balance of the Profit and Loss account to the proprietor's Capital account. This entry is necessary because the purpose of closing the ledger is to transfer the net profit to the proprietor's account. The Profit and Loss account is debited because this account shows the net profit; the proprietor's Capital account is credited because this profit is equivalent to an additional investment. When this entry is made, the Profit and Loss account will balance and be ruled, and the proprietor's Capital account will show his present proprietorship as shown by the Balance Sheet.

The illustration at the right shows the Profit and Loss account and the account with W. A. Gordon, Capital, before the fifth entry has been made, and the Profit and Loss and W. A. Gordon Capital accounts after this entry has been made.


W. A. Gordon, Capital
19 Oct. 31 200 Oct. 31 500
Profit and Loss
19 Oct. 31 Expense 327.40 19 Oct. 31 Profit on Sales 7.13.90
Profit and Loss
19 Oct. 31 Expense 327.40 19 Oct. 31 Profit on Sales 7.13.90
7.13.90 7.13.90
W. A. Gordon, Capital
19 Oct. 31 200 Oct. 31 500
31 Profit and Loss 385.90

Closing the Inventory Account

The inventory of merchandise at the close of the fiscal period may remain in the Purchases account throughout the next fiscal period, or it may be closed into the Purchases account at the beginning of the next period; the transfer of the inventory from the Inventory account to the Purchases account, whether made at the beginning or close of the fiscal period, should be through a general journal entry as illustrated on page 96.

Sales

19						19				
Sept.	19		J1	910		Sept.	6		Cr.	32
Oct.	6		C3	250			13		Cr.	40
	24		J1	3375			20		Cr.	65
	31	Cost of Sales	4	163535			27		Cr.	4450
				236400			30	72451	S1	55211
						Oct.	4		Cr.	8765
							11		Cr.	10980
							18		C4	12950
							27		C4	13645
							31		C4	8719
							31		S2	1079780
				2364						2364

Inventory

19				
Oct.	31	Miscellaneous	4	147715

Purchases

19						19				
Sept.	1	Inventory	J	500		Sept.	23		J1	1760
	30	27750	P1	129210		Oct.	20		J1	1060
Oct.	2	Freight and Drayage	C3	225			31	Inventory	4	147715
	31		P1	134075						
				313510						313510

Expense

19						19				
Sept.	4		C3	25		Oct.	21	Stamps	C4	50
	30	165.00	C3	1405			27	"	J1	600
Oct.	13		C3	1850						
	17		C5	5						
	31	32740	C5	1405						
				32550						32850

Illustration No. 157, Ledger Closed by Direct Method—Continued.

The Above Accounts Before They are Closed are shown on page 73. It is necessary to open the Inventory account in connection with the closing entries because it is an asset which is not recorded. The process of closing these accounts is analyzed and explained on pages 360 and 361.

W. A. Gordon, Capital

19 Oct.	1	C3	200	19 Sept	1	C2	1000
					1	$1	500
			1885 90				1500
				Oct	31 Profit & Loss	5	385 90
			1885 90				1885 90
				Nov.	1 Present Capital	✓	1685 90

Profit and Loss

19 Oct.	31 Expense	4	327 40	19 Oct.	31 Profit on Sales	4	713 30
			713 30				
			713 30				713 30

Illustration No. 158, Ledger Closed by Direct Method—Concluded.

It is Customary to Balance the Capital Account after the ledger is closed and to carry the present capital down under date of the next business day. The illustration above shows the process of balancing W. A. Gordon's Capital account which appears at the bottom of page 72.

The Profit and Loss Account contains a summary of the cost and income as shown by the Statement of Profit and Loss. The account is opened at the close of the fiscal period in connection with the closing entries and closed when the profit is transferred to the Capital account, and remains closed throughout the period.

W. A. Gordon
Post-Closing Trial Balance, October 31, 19

1	Cash	291 61	
1-2	Accounts Receivable	883 51	
3	Accounts Payable		966 37
3	W. A. Gordon, Capital		1685 90
4	Inventory	1477 15	
		2652 27	2652 27
		2652 27	2652 27

Illustration No. 159, Post-closing Trial Balance, Model Set

The Equality of Debits and Credits is maintained in recording the closing entries; hence the ledger should be in balance if these entries have been made correctly. The Trial Balance in the illustration is taken from the ledger accounts on pages 70, 71, 91 and 362. The accounts receivable and accounts payable are grouped and entered in one amount because none of these accounts in the ledger are affected by the closing.

Appendix C

INCOME TAX RETURN

The Purpose of this Appendix is to explain briefly the income tax and to show the method of preparing the return for an individual, a partnership and a corporation on blanks provided by the Government. The student can see from the discussion and illustrations that when all the information needed is available, the preparation of the return is not a difficult problem.

§ **365. Income Tax.** There are three methods of taxation: (a) a percentage of the value of property, (b) a fixed amount for privilege granted, and (c) a percentage of net income. Taxes collected on a property valuation basis are referred to as "property taxes;" taxes collected for privileges, as "license" and "stamp tax;" taxes collected on income, as "income tax." The property owner submits a schedule of his property as a basis for taxation; the one who wishes to secure a privilege pays in advance for the same and receives stamps or a receipt authorizing him to exercise the privilege granted thereby—that is, he receives a license to perform certain business transactions; the one who receives an income submits a schedule of his gross income and the deductions therefrom, as a basis for taxation.

State, city and county governments usually levy taxes on property and privileges, though a few states have levied taxes on income. The United States Government levies taxes on privileges and income; privileges are granted through the sale of stamps, and the taxes on income are collected yearly. The full amount of the tax levied on income may be paid at the time the income tax return is presented to the collector, or quarterly—one-fourth at the time the return is made and the balance in three equal installments.

The income tax return is prepared by the taxpayer on a blank provided by the Government, and within seventy-five days from the close of the period which it covers. The official form contains two pages of instructions in addition to the pages required for the return. The taxpayer should retain a copy of the return; he removes the two pages of instructions from the blank before it is presented to the Collector of Internal Revenue.

The discussion of income tax here refers to that levied by the United States Government. The states which levy taxes on income usually accept the report made to the Federal Government as a basis for taxation. The process of levying a tax on income by foreign governments is along the same line as that used by the United States Government.

§ **367. Gross Income,** as defined in Section 213 (a) of the 1921 Revenue Act, includes income derived from salaries, professional services, the operations of a business, or special transactions from which the taxpayer derives profit. The amount of all such items is to be included in the gross income for the taxable year as listed on the income tax return.

Income from the operations of a business, income received as salary for services rendered, income from the rent of real estate owned by the taxpayer, interest on bonds, and dividends on stock owned by the taxpayer are examples of items composing gross income.

§ **368. Exempt Income.** The taxpayer is not required to pay tax on all income. Space will not permit a complete discussion of these exemptions here, but they are given in detail in Section 213 (b) of the 1921 Revenue Act, a complimentary copy of which will be provided any teacher of bookkeeping by the publishers of this text.

The proceeds of life insurance policies, the value of property acquired by gift, interest on the obligations of the United States (with certain exceptions), income from domestic building and loan associations (with certain exceptions), and the rental value of a dwelling house furnished a minister of the gospel are examples of exempt income.

§ 369. Deductions Allowed Individuals. Every individual taxpayer is allowed certain deductions from his gross income which are to be subtracted from the gross income to ascertain the net income on which he is to pay tax. He is also allowed a personal exemption of $1,000.00, if single; or $2,500.00 if married or the head of a family. These exemptions are given in detail in Sections 214 and 216 of the 1921 Revenue Act.

All the expenses necessary for the operation of a trade or business, including salaries, traveling expenses, rent, etc.; interest paid on borrowed capital; taxes paid to a city or state; losses sustained from failure to collect accounts receivable; losses sustained on account of the sale of property belonging to the taxpayer; a reasonable allowance for exhaustion, wear and tear of property used in the operations of the business of the taxpayer; and contributions to charity (by individuals only) are examples of the deductions allowed.

§ 370. Deductions Not Allowed. The taxpayer cannot deduct all of his expenses from gross income in order to ascertain his net income. Items which are not deductible are given in Section 215 of the 1921 Revenue Act.

Personal, living and family expenses, amounts paid for new buildings, improvements or betterments, amounts expended in restoring property or in making good the exhaustion thereof, and amounts paid as premiums for life insurance are examples of deductions not allowed.

§ 371. Individual Income Tax Return. Every individual having a net income of $1,000.00 or more, if single, or $2,000.00 or more, if married, or a gross income of $5,000.00 or more, must submit an income tax return showing the amount of his gross income and the deductions therefrom. The income of an individual may be derived from a salary, investment, or the profits resulting from the operations of a business, as explained in § 1. The return includes the income and deductions for one year, which may end December 31 or on any other date.

Illustrations Nos. 160 and 161 show the income tax return submitted by W. A. Gordon for the year ending August 31, 1922. This was prepared from the facts given in § 374. Illustrations Nos. 162 and 163 contain instructions for preparing the income tax return.

§ 372. Partnership Income Tax Return. A partnership is required to submit an income tax return at the conclusion of each fiscal period of twelve months, but the tax is paid by the individual partners. The information for the income tax return is obtained from the Statement of Profit and Loss prepared from the accounts resulting from the performance of business transactions during the year. The partnership is allowed the same deductions as the individual, with the exception of contributions to charity.

Illustrations Nos. 164 and 165 show the front and back of the partnership income tax return prepared from the Statement of Profit and Loss (Illustration No. 93) for C. W. Keeland & Co., a partnership composed of C. W. Keeland and A. D. Munson. The distribution of the expenses as given in Illustration No. 93 is not the same as that given on the income tax return; these changes are explained in § 375.

§ 373. Corporation Income Tax Return. Every corporation is required to pay tax on its annual net income. The method of ascertaining its net income is explained in Section 239 of the 1921 Revenue Act. The income tax return submitted by the corporation is signed by two officers of the corporation, usually the president and treasurer.

Illustrations Nos. 168–171 show the front and back of both sheets of the income tax return prepared for a corporation. The information in this return is obtained from the Balance Sheet and Statement of Profit and Loss in Illustrations Nos. 130 and 131.

§ 374. Explanation of Illustrations Nos. 160 and 161. W. A. Gordon operates a retail grocery business. His profits from the operations of this business are shown in the illustration on page 366. In addition to his income from the grocery business, Mr. Gordon has received $300.00 salary from the Peoples' Insurance Company for services as a member of the board of directors, $47.50 dividend on one share of stock in the Citizens Building and Loan Association, and $25.50 interest on a Liberty Bond which he owns; his traveling expenses in connection with attending board meetings were $30.00, the taxes on his home, $35.50, and his contributions to charity, $50.00. The dividend and income from interest on

the Liberty Bonds are not shown in Illustration No. 160 because this income received by Mr. Gordon is exempt from taxation. The $30.00 expenses in connection with obtaining the salary of $300.00 is deducted because $270.00 is the net income received. The taxes paid by Mr. Gordon and contributions to charity are deducted from his net income because they are authorized deductions.

The illustration below shows the Statement of Profit and Loss prepared from the income and cost accounts in the ledger of W. A. Gordon at the close of business August 31, 1922. The transactions completed by W. A. Gordon during the first two months during which he operated his grocery business, are given in the Model Set, Chapter VI. A Statement of Profit and Loss prepared by his bookkeeper at the conclusion of the first two months is given in Illustration No. 42; the statement at the right is in the same form but the amounts are different because it shows the costs and income and the net profit for twelve months. All the information needed in connection with the preparation of the income tax return may be obtained from the Statement of Profit and Loss, but it is usually necessary to analyze some of the operating accounts in order to show certain facts in regard to the cost of operation. In Illustration No. 161 the expenses are distributed as rent, taxes, insurance, salaries, delivery cost, advertising, and miscellaneous; this distribution is obtained from an analysis of the Expense account.

W. A. GORDON

Statement of Profit and Loss, August 31, 1922

Returns from Sales:		
Gross Sales		15,275.80
Deduct Sales Returns		101.92
Net Sales		15,173.88
Cost of Mdse. Sold:		
Mdse. Inventory 9/1/21 ..... 500.00		
Add Purchases 11,026.85	11,526.85	
Less Purchases Returns	85.40	
Net Purchases Cost	11,441.45	
Less Mdse. Inventory 8/31/22	1,477.15	
Net Cost of Mdse. Sold		9,964.30
Gross Profit on Sales		5,209.58
Operating Cost:		
Expense		2,039.90
Net Profit		3,169.68

§ 375. Explanation of Illustrations Nos. 164 and 165. The business operated by C. W. Keeland & Co. is owned by C. W. Keeland and A. D. Munson. The results of operating the business during the year ending December 31, 1922 are shown by the Statement of Profit and Loss (Illustration No. 93). The facts shown on the income tax return are the same as those shown on the Statement of Profit and Loss except that some of the expenses are analyzed. The salary paid one partner ($1,200.00) was debited to Selling Expense and the salary of the other partner ($1,200.00) was debited to Administrative Expense, but salaries paid partners must be shown as a separate item on the return. Purchases discount is deducted from the net cost of goods purchased, and sales discount from the net sales, instead of being shown as non-operating income and cost. The adjustment on page 2 of the return is necessary because the partnership paid a fine of $25.00 (which was debited to Selling Expense) for one of its drivers who exceeded the speed limit, but this cannot be deducted as an expense on the return because it is one of the costs which are not deductible. Each partner will be required to show his share of the net income on his individual income tax return, which will be prepared in the same form as that for W. A. Gordon, pages 367 and 368, except that the income received by each will be entered as Item 3 instead of Item 5.

The purpose of illustrating a partnership income tax return is to show the student that the information desired by the Government is obtained from the Statement of Profit and Loss and not to explain the technicalities of the income tax law. The student should compare the above information with Illustrations Nos. 164 and 165 and the instructions in Illustrations Nos. 166 and 167.

Form 1040A
U. S. INTERNAL REVENUE

FILE RETURN WITH THE COLLECTOR OF INTERNAL REVENUE FOR YOUR DISTRICT ON OR BEFORE MARCH 15, 1922

INDIVIDUAL INCOME TAX RETURN

FOR NET INCOMES OF NOT MORE THAN $5,000

For Calendar Year 1921

Or for period begun Sept. 1, 1921, and ended Aug. 31, 1922

PRINT NAME AND ADDRESS PLAINLY BELOW

W. A. Gordon,
(Name)

605 Main Street,
(Street and number or rural route.)

Cincinnati, Hamilton, Ohio.
(Post office.) (County.) (State.)

Do not write in this space
FIRST PAYMENT
$ .....
(Cashier's Stamp)

CASH CHECK M. O.

Examined by .....

OCCUPATION, PROFESSION, OR KIND OF BUSINESS ..... Retail Grocery

See instructions Number	Explain in Schedule (page 2)	INCOME.				
13	F	1. Salaries, Wages, Commissions, etc. (State name and address of person from whom received.)	Amount received.	Expenses paid.	270 00	
		Peoples Insurance Company	$ 300.00	$ 30.00		
		Hamilton, Ohio.				
		2. Interest on Bank Deposits, Notes, Mortgages, and Corporation Bonds				
14		3. Income from Partnerships, Fiduciaries, etc. (State name and address of partnerships, etc.)				
15	A	4. Rents and Royalties				
16	B	5. Profit (or loss) from Business or Profession (not including income from partnerships)			3169 68	
17	C	6. Profit (or loss) from Sale of Real Estate				
18	D	7. Profit (or loss) from Sale of Stocks, Bonds, etc.				
19		8. Other Income (except dividends from domestic corporations and interest on obligations of the U. S.) (State nature of income)				
		(a)				
		(b)				
		9. TOTAL INCOME IN ITEMS 1 TO 8 (less losses shown above, if any)				$ 3439 68
		DEDUCTIONS.				
20		10. Interest Paid (not including interest deducted above)			$	
21		11. Taxes Paid (not including taxes deducted above)			35 50	
22	E	12. Losses by Fire, Storm, etc.				
23	F	13. Contributions			50 00	
24	F	14. Bad Debts (not including bad debts deducted above)				
25	F	15. Other Deductions Authorized by Law				
		16. TOTAL OF ITEMS 10 TO 15				$ 85 50
		17. TAXABLE NET INCOME (Item 9 minus Item 16)				$ 3354 18

COMPUTATION OF TAX.

18. Net Income (Item 17 above)	$ 3354 18	21. Tax Due (4% of Item 20)	$ 18 17
8 19. Less Personal Exemption and Credit for Dependents	2900 00	22. Less: Tax Paid at Source ..... $	
		23. Income and profits taxes paid to a foreign country or possession of the United States (attach Form 1116)	
20. Balance (Item 18 minus Item 19)	$ 454 18	24. Balance Due (Item 21 minus 22 and 23)	$ 18 17
11 Checks will be accepted if payable at par at Collector's Office.		25. Tax Paid when Filing Return	$ 18 17

2—11823

Illustration No. 160, Page 1 of Individual Income Tax Return.

SCHEDULE A.—EXPLANATION OF ITEM 4. (Rents and Royalties.)

1. Kind of property.	2. Cost, or March 1, 1913, value.	3. Amount received.	4. Repairs.	5. Depreciation and depletion.	6. Other expenses.	7. Net profit (or loss).

State estimated life of property and how you figured depreciation .....

SCHEDULE B.—EXPLANATION OF ITEM 5. (Business or Profession.)

Total Income from Business or Profession Gross Sales $15,275.80—Returns $101.92 — 15173 88

Total Business Expenses (state specifically, see Instruction 16) Mdse. $9,964.30, Expense $2,039.90 — 12004 20

NET PROFIT (OR LOSS) (If profit is less than usual, explain) ..... — 3169 68

Explanation of business expenses Net purchases $11,441.45—inventory 8/31/22 $1,477.15. Rent $780.00, taxes $75.50, insurance $50.00, salaries $900.00, delivery cost $100.00, advertising $50.00, miscellaneous $84.40.

SCHEDULE C.—EXPLANATION OF ITEM 6. (Sale of Real Estate.)

1. Kind of property.	2. Date acquired.	3. Amount received.	4. Cost.	5. March 1, 1913, value.	6. Subsequent improvements.	7. Depreciation.	8. Net profit (or loss).

If not acquired by purchase, state how acquired .....

SCHEDULE D.—EXPLANATION OF ITEM 7. (Sale of Stocks, Bonds, etc.)

1. Kind of property.	2. Date acquired.	3. Cost.	4. March 1, 1913, value.	5. Amount received.	6. Net profit (or loss).

If not acquired by purchase, state how acquired .....

SCHEDULE E.—EXPLANATION OF ITEM 12. (Losses by Fire, Storm, etc.)

1. Kind of property.	2. Cost, or March 1, 1913, value.	3. Depreciation previously taken.	4. Salvage value.	5. Insurance.	6. Net loss.

SCHEDULE F.—EXPLANATION OF DEDUCTIONS CLAIMED IN ITEMS 1, 13, 14, and 15.)

Item 1: traveling expenses incidental to attending Board meetings.

Item 13: contributions to Community Chest.

1. Are you a citizen or resident of the United States? Yes

2. If you filed a return for 1920, to what Collector's office was it sent? Cincinnati, Ohio

3. Is this a joint return of husband and wife? No

4. Was a separate return filed by your husband or wife? No — If so, state: (a) Exemption claimed, $ ..... (b) Name and address entered at head of that return .....

5. Were you married and living with husband or wife on the last day of your taxable period? Yes

6. If not, were you on the last day of your taxable period supporting one or more persons living in your household who are closely related to you by blood, marriage, or adoption? .....

7. How many dependent persons (other than husband or wife) under 18 years of age or incapable of self-support because mentally or physically defective were receiving their chief support from you on the last day of your taxable period? One child

8. State amount of dividends received from domestic corporations (including dividends received through partnerships, fiduciaries, etc.) $ 100.00

9. State amount of interest received on Victory Liberty Loan 4½% Notes $ 47.50

10. State amount of interest received on other obligations of the United States (except Liberty Bonds) on a principal in excess of $5,000 $ 25.50

I SWEAR (or affirm) that this return, including the accompanying schedules and statements (if any), has been examined by me, and, to the best of my knowledge and belief, is a true and complete return, made in good faith, for the taxable period as stated, pursuant to the Revenue Act of 1921 and the Regulations issued under authority thereof.

(If return is made by agent, the reason therefor must be stated on this line.)

Sworn to and subscribed before me this ..... day of .....

(Signature of individual or agent)

(Signature of officer administering oath.) (Title.) (Address of individual or agent.)

(An amended return must be plainly marked "Amended" across the face of the return.)

2—11632

Illustration No. 161, Page 2 of Individual Income Tax Return.

INSTRUCTIONS FOR INDIVIDUAL RETURN

1. PERSONS REQUIRED TO MAKE A RETURN OF INCOME.

An income tax return must be filed by every citizen of the United States whether residing at home or abroad, and every person residing in the United States, though not a citizen thereof, whose gross income for the taxable period 1921 amounted to $5,000, or whose net income amounted to—

(a) $1,000 if single or if married and not living with husband or wife.
(b) $2,000 if married and living with husband or wife.

If the combined net income of husband, wife, and dependent minor children equalled or exceeded $2,000, or if the combined gross income of husband, wife, and dependent minor children equalled or exceeded $5,000 all such income must be reported on a joint return, or on separate returns of husband and wife. If single and the net income, including that of dependent minors, if any, equalled or exceeded $1,000, or if the gross income equalled or exceeded $5,000, a return must be filed. A minor, however, having a net income of $1,000 or $2,000, according to the marital status, or a gross income of $5,000, must file a return.

Under each of the above conditions, a return must be filed even though no tax is due. Note especially Instruction 8, "Credits for Personal Exemption and Dependents."

The income of a minor or incompetent, if derived from a separate estate under control of a guardian, trustee, or other fiduciary, must be reported by his guardian or other legal representative.

Income of (a) estates of decedents before final settlement; (b) trusts, whether created by will or deed, for unascertained persons or persons with contingent interests; or income held, or which under the terms of the will or trust may be held, for future distribution, is taxed to the fiduciary as a single person, except that from the income of an estate there may first be deducted any amount properly paid or credited to beneficiaries.

If the net income of a decedent from the beginning of the taxable period to the date of his death was $1,000, if unmarried, or $2,000, if married and living with wife or husband, or if the gross income was $5,000 or over, the executor or administrator shall file a return on Form 1040 or 1040A for such decedent.

2. WHEN TO USE FORM 1040 INSTEAD OF THIS FORM.

You must file your return on Form 1040—

(a) If the combined net income of husband and wife exceeds $5,000.
(b) If your net income exceeds $5,000.
(c) If the net income reported in this return exceeds $4,000 and the entire family exemption has been claimed in a separate return filed by husband or wife.
(d) If the return is filed for a period of less than one year and the net income when placed on an annual basis exceeds $5,000. (See Instruction 3 below.)

3. PERIOD TO BE COVERED BY RETURN.

Your return must be filed for the calendar year ending December 31, 1921, or for the fiscal year ending on the last day of any month other than December. The dates on which the period covered by the return begins and ends, if other than a calendar year, must be plainly stated at the head of the return.

You were required to file your return for 1918 on the basis of your annual accounting period. Having established an accounting period for 1918 this period must be adhered to for subsequent years, unless permission was received from the Commissioner to make a change. In the case of a return for a period of less than one year, the net income shall be placed on an annual basis by multiplying the amount thereof by twelve and dividing by the number of months included in such period; and the tax shall be such part of a tax computed on such annual basis as the number of months in such period is of twelve months.

4. ACCRUED OR RECEIVED INCOME.

If your books of account are kept on an accrual basis, report all income accrued, even though it has not been actually received or entered on the books, and expenses incurred instead of expenses paid.

If your books do not show income accrued and expenses incurred, report all income received or constructively received, such as bank interest credited to your account, and expenses paid.

5. INSTALLMENT SALES.

If you have used the installment method in computing income from installment sales you must attach to your return a schedule showing separately for the years 1918, 1919, 1920, and 1921 the following information: (a) Gross sales; (b) cost of goods sold; (c) gross profits; (d) percentage of profits to gross sales; (e) amount collected; (f) gross profit on amount collected.

6. ITEMS EXEMPT FROM TAX.

The following items are exempt from Federal income tax and should not be reported, unless it is desired to establish a net loss, in which case see Section 204 of the Revenue Act of 1921:

(a) The proceeds of life insurance policies paid upon the death of the insured;
(b) The amount received by the insured as a return of premium or premiums paid by him under life insurance, endowment, or annuity contracts, either during the term or at the maturity of the term mentioned in the contract or upon surrender of the contract;
(c) Gifts (not made in consideration for service rendered), and money and property acquired under a will or by inheritance (but the income derived from money or property received by gift, will, or inheritance is taxable and must be reported);
(d) Interest upon (1) the obligations of a State, Territory, or any political subdivision thereof, or the District of Columbia; or (2) securities issued under the provisions of the Federal Farm Loan Act of July 17, 1916; or (3) the obligations of the United States or its possessions; or (4) bonds issued by the War Finance Corporation. In the case of obligations of the United States issued after September 1, 1917 (other than postal savings certificates of deposit), and in the case of bonds issued by the War Finance Corporation, the interest is exempt only if and to the extent provided in the respective acts authorizing the issue thereof as amended and supplemented by Section 1328 of the Revenue Act of 1921, and should be excluded from gross income only if and to the extent it is wholly exempt to the taxpayer from income, war profits, and excess profits taxes;
(e) Amounts received through accident or health insurance or under workmen's compensation acts, as compensation for personal injuries or sickness, plus the amount of any damages received, whether by suit or agreement, on account of such injuries or sickness;

(f) Amounts received as compensation, family allotments and allowances under the provisions of the War Risk Insurance and the Vocational Rehabilitation Acts, or as pensions from the United States for service of the beneficiary or another in the military or naval forces of the United States in time of war;
(g) The rental value of a dwelling house and appurtenances thereof furnished to a minister of the gospel as part of his compensation;
(h) Compensation paid by a State or political subdivision thereof to its officers or employees.

7. FARMER'S INCOME SCHEDULE.

If you are a farmer or a farm owner renting your farm out on shares and keep no books of account, or keep books on a cash basis, obtain from the Collector, and attach to this return, Form 1040 F, Schedule of Farm Income and Expenses. Enter the net farm income as Item 5, page 1 of the return. If your farm books of account are kept on an accrual basis, the filing of Form 1040F is optional. Report income from salaries, interest, rents, sales of property, etc., in Items 1 to 7 of the return.

8. CREDITS FOR PERSONAL EXEMPTION AND DEPENDENTS.

If you were married and living with your husband or wife or were head of a family on the last day of your taxable period, you may subtract from your net income on Form 1040A, before calculating your normal tax, an exemption of $2,000, plus $400 for each person (other than husband or wife) under 18 years of age or incapable of self-support because mentally or physically defective, who was receiving his chief support from you on that date. If husband and wife make separate returns, the exemption of $2,000 may be claimed by either (but not by both) or may be divided between them, but the exemption of $400 for each dependent may be claimed only by the person furnishing the chief support.

If you were not married or did not live with husband or wife and were not head of a family on the last day of your taxable period, you are entitled to a personal exemption of $1,000 plus $400 for each dependent person under 18 years of age or incapable of self-support because mentally or physically defective, who was receiving his chief support from you on that date.

An exemption of $1,000 may be claimed in cases where Form 1040A is filed for estates in process of administration, or with respect to income held for future distribution.

If by reason of a change in your accounting period a return is filed for part of a year, the personal exemption and credit for dependents may be claimed in accordance with your status on the last day of such taxable period. (See also Instruction 3 on this page.)

A "head of family" is a person who actually supports one or more persons living in his (or her) household, who are closely related to him (or her) by blood, marriage, or adoption.

9. AFFIDAVIT.

The affidavit must be executed by the person whose income is reported unless he is a minor or incompetent, or unless he is ill, absent from the country, or otherwise incapacitated, in which case the legal representative or agent may execute the affidavit. A minor, however, making his own return, must execute the affidavit.

The oath will be administered without charge by any collector, deputy collector, or internal revenue agent, or (if you are in the military or naval service of the United States) by any military or naval officer who is authorized to administer oaths for purposes of military or naval justice and administration. If an internal revenue officer is not available, the return should be sworn to before a notary public, justice of the peace, or other person authorized to administer oaths.

10. WHEN AND WHERE THE RETURN MUST BE FILED.

If the return is for the calendar year 1921, file it with the Collector of Internal Revenue for the district in which you live or have your principal place of business on or before March 15, 1922. If for a period other than the calendar year, the return should be filed on or before the 15th day of the third month following the close of such period.

In case the taxpayer had no legal residence or place of business in the United States, the return should be forwarded to the Collector of Internal Revenue, Baltimore, Md.

If the address of the collector is not printed on the return and you do not know it, ask at the post office or bank.

11. WHEN AND TO WHOM THE TAX MUST BE PAID.

The tax should be paid, if possible, by sending or bringing with the return a check or money order drawn to the order of "Collector of Internal Revenue at (insert name of city and State)."

Do not send cash through the mail, or pay it in person, except at the office of the collector.

The tax may be paid in four equal installments as follows: The first installment shall be paid at the time fixed by law for filing the return, the second installment shall be paid on the 15th day of the third month, the third installment on the 15th day of the sixth month, and the fourth installment on the 15th day of the ninth month after the time fixed by law for filing the return.

The total tax may be paid at the time of filing the return, or if not so paid, one installment must be paid and the balance may be paid in installments, or in full, on or prior to any subsequent installment date referred to above. Failure to pay any installment on the date fixed by law makes the taxpayer liable for the payment of the balance of tax due upon notice and demand by the collector.

12. PENALTIES.

For Making False or Fraudulent Returns.

Not exceeding $10,000 or not exceeding one year's imprisonment, or both, in the discretion of the court, and, in addition, 50 per centum of the tax evaded.

For Failing to Make Return on Time.

Not more than $1,000, and, in addition, 25 per centum of the total tax.

For Failing to Pay Tax When Due, or Understatement of Tax Through Negligence, etc.

Five per cent of the tax due but unpaid, plus interest at the rate of 1 per centum per month during the period in which it remains unpaid.

* Illustration No. 162, Page 1 of Instructions for Individual Return.

13. INCOME FROM SALARIES, WAGES, COMMISSIONS, ETC.

Report all salaries or other compensation credited by or received from outside sources, and any salaries included as a deduction in Item 5 for (*a*) yourself, (*b*) your wife (or husband), if a joint return is filed, and (*c*) each dependent minor child having a net income of less than $1,000 per annum. Use a separate line for each entry, giving the information requested.

Any amount claimed as a deduction for necessary expenses against salaries, etc., should be fully explained in Schedule F, page 2 of the return, or in an attached statement.

Traveling expenses (including the entire amount expended for meals and lodging) while away from home in the pursuit of a trade or business are deductible.

14. INCOME FROM PARTNERSHIPS, FIDUCIARIES, ETC.

Report your share (whether received or not) in the profits of a partnership or personal service corporation, or in the income of an estate or trust, except the part of such share that consisted of dividends on stock of domestic corporations, and taxable interest on obligations of the United States, which should be included in Items 8, 9, and 10, at foot of page 2 of the return.

Report in Item 1, salary received from a partnership or personal service corporation.

If the taxable period on the basis of which you file your return fails to coincide with the annual accounting period of the partnership, personal service corporation, or fiduciary, then you should include in your return your distributive share of the total net income for such accounting period, ending within your taxable period.

15. INCOME FROM RENTS AND ROYALTIES.

If you received property or crops in lieu of cash rent, report the income as though the rent had been received in cash. Crops received as rent on a crop-share basis should be reported as income for the year in which disposed of (unless your return shows income accrued).

Explain in Schedule A, repairs, depreciation, depletion, and other expenses. Other expenses include interest, taxes, fire insurance, fuel, light, labor, and other necessary expenses of this character.

16. INCOME FROM BUSINESS OR PROFESSION.

Report in Item 5 income from—

(*a*) Sale of merchandise, or of products of manufacturing, construction, mining, and agriculture.

(*b*) Business service, such as transportation, storage, laundering, hotel and restaurant service, livery and garage service, etc., if you owned the business. If you are only an employee of a business, report your salary or wages in Item 1.

(*c*) A profession, such as medicine, law, or dentistry, if you practiced it on your own account. If you were employed on a salary, report your salary in Item 1.

In general, report in Item 5, any income in the earning of which you incurred expenses for labor, rent, etc.

If you are a farmer (or a farm owner renting your farm to another person on shares), see Instruction 7.

Describe the business or profession, as "grocery," "retail clothing," "drug store," "laundry," "doctor," "lawyer," "farmer," etc.

Report the total income derived from sales or from services, less any discounts or allowances from the sale price or service charge. (For installment sales see Instruction 5.)

"Total Business Expenses" include: (1) cost of goods sold, which is usually obtained by adding to the inventory at the beginning of the year the merchandise and supplies purchased during the year, and deducting from this sum the inventory at the end of the year; (2) business expenses, which include all ordinary and necessary business expenses not classified above, such as office wages, rent, heat, light, and traveling expenses (see Instruction 13); (3) repairs, wear and tear, obsolescence, depletion, and property losses (other than merchandise), such as (*a*) ordinary repairs required to keep property in usable condition, (*b*) reasonable allowance for exhaustion, wear and tear of property used in the trade or business, including a reasonable allowance for obsolescence, and (*c*) losses of business property by fire, storm, or other casualty, or theft, not compensated for by insurance or otherwise and not made good by repairs claimed as deductions; and (4) bad debts, or portions thereof, arising from sales or professional services that have been reported as income, which have been definitely ascertained to be worthless and charged off within the year, or such reasonable amount as has been added to a reserve for bad debts within the year. A debt previously charged off as bad, if subsequently collected, must be returned as income for the year in which collected. Explain these deductions under Schedule F, page 2 of the return.

Do not include cost of business equipment or furniture, expenditures for replacements or for permanent improvements to property, or personal living or family expenses, nor any deduction for depreciation in the value of a building occupied by you as a dwelling, or of other property held for personal use.

If Item 5 shows a deficit, indicate by using red ink or a minus sign.

17. PROFIT FROM SALE OF REAL ESTATE.

Describe the property briefly, as "farm," "house," "lot."

State the actual consideration or price received, or, in case of an exchange, the fair market value of the property received.

Enter the original cost of the property, and if it was acquired prior to March 1, 1913, the fair market value on that date. Attach statement explaining how value at March 1, 1913, was determined. Expenses incidental to the purchase may be included in the cost if never claimed in income tax returns as deductions from income.

Enter as depreciation the amount of wear and tear and obsolescence, or depletion, sustained since March 1, 1913 (or since date of acquisition, if subsequent to March 1, 1913).

In case the property was acquired by gift, bequest, devise, or inheritance after March 1, 1913, or in any manner prior to that date, see Section 202 of the Revenue Act of 1921.

If the net result to be entered in Item 6 is a deductible loss, indicate the deficit by using red ink or a minus sign.

18. PROFIT FROM SALE OF STOCKS, BONDS, ETC.

The method of computation and the information to be submitted in the case of sales of stocks, bonds, etc., is similar to that required for Item 6, except that subsequent improvements and depreciation are not involved. The profit (or loss) should be computed in accordance with Instruction 17 above.

19. OTHER INCOME.

Report all other taxable income for which no place is provided elsewhere on page 1 of the return, including dividends received on stock of foreign corporations. Dividends received on stock of domestic corporations and taxable interest on obligations of the United States should be reported in Items 8, 9, and 10 at the foot of page 2 of the return.

20. INTEREST PAID.

Enter as Item 10 interest paid on personal indebtedness as distinguished from business indebtedness (which should be deducted under Schedules A, B, C, or D). Do not include interest on indebtedness incurred for the purchase of bonds and other obligations, the interest on which is exempt from tax, except interest on indebtedness incurred to purchase or carry obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer.

21. TAXES PAID.

Enter as Item 11 personal taxes paid and all taxes on property not used in business or profession, not including those assessed against local benefits of a kind tending to increase the value of the property. Do not include Federal income taxes, taxes imposed upon the taxpayer upon his interest as shareholder or member of a corporation, which are paid by the corporation without reimbursement from the taxpayer, nor income and profits taxes claimed as a credit in Item 23, page 1 of the return.

22. LOSSES BY FIRE, STORM, ETC.

Enter as Item 12 losses of property not connected with your trade, business, or profession, sustained during the year from fire, storm, shipwreck, or other casualty, or from theft, which were not compensated for by insurance or otherwise. (Losses claimed should be explained in Schedule E, on page 2 of the return.)

Do not deduct losses incurred in transactions which were neither connected with your trade or business, nor entered into for profit.

23. CONTRIBUTIONS.

Enter as Item 13 contributions or gifts made within the taxable period to or for the use of: (*a*) the United States, any State, Territory, or any political subdivision thereof, or the District of Columbia, for exclusively public purposes; (*b*) any corporation, or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including posts of the American Legion or the Women's Auxiliary units thereof, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual; or (*c*) the special fund for vocational rehabilitation authorized by section 7 of the Vocational Rehabilitation Act; to an amount which in all the above cases combined does not exceed 15 per centum of the taxpayer's net income as computed without the benefit of this paragraph.

Fiduciaries filing this return for estates in the process of administration are allowed, in lieu of this deduction, that provided in Section 219 (*b*) of the Revenue Act of 1921. List names of organizations and amounts contributed to each in Schedule F.

24. BAD DEBTS.

Enter as Item 14 all bad debts other than those claimed as a deduction in Items above. State in Schedule F (*a*) of what the debts consisted, (*b*) when they were created, (*c*) when they became due, and (*d*) how they were actually determined to be worthless.

25. OTHER AUTHORIZED DEDUCTIONS.

If this return is filed for an estate in the process of administration, there may be deducted the amount of any income properly paid or credited to beneficiaries. Any deduction claimed in Item 15 should be explained in Schedule F.

DETACH AND RETAIN THIS INSTRUCTION SHEET WITH YOUR WORKING PAPERS.

GOVERNMENT PRINTING OFFICE 2—11632

Illustration No. 163, Page 2 of Instructions for Individual Return.

Form 1065
U. S. Internal Revenue

THIS RETURN SHOULD BE FILED NOT LATER THAN THE 15TH DAY OF THE THIRD MONTH FOLLOWING THE CLOSE OF THE ACCOUNTING PERIOD

PARTNERSHIP AND PERSONAL SERVICE CORPORATION RETURN OF INCOME
FOR CALENDAR YEAR 1922

Do not write in this space
Examined by

Date received

Or for period begun ....., 1921, and ended , 1922

PRINT NAME AND ADDRESS PLAINLY BELOW

C. W. Keeland & Co.,
(Name)
208 Commerce Street,
(Street and number)
Cincinnati, Ohio.
(Post office and State)

KIND OF BUSINESS Retail Feed and Coal STATE WHETHER PARTNERSHIP OR CORPORATION Partnership

SCHEDULE A—INCOME TO BE ACCOUNTED FOR BY MEMBERS.

GROSS INCOME			
1. Gross sales, less returns and allowances	$ 26 474 76		
2. Less cost of goods sold, exclusive of items called for separately below (attach Schedule A2)	18 328 83	$ 8 145 93	
3. Gross income from services or operations other than trading or manufacturing, less allowances (attach Schedule A3)			
4. Taxable interest from all other sources (not including interest referred to under Items 2 and 3, Schedule C)		163 48	
5. Rents			
6. Royalties			
7. Share of net income earned by a partnership or personal service corporation (whether received or not)			
8. Dividends subject to surtax only (attach Schedule A8)			
9. Dividends subject to both normal and surtax (attach Schedule A9)			
10. Other income (not including any amount reported in Item 23 below nor interest on Liberty Bonds) (attach Schedule A10)			
11. TOTAL OF ITEMS 1 TO 10			$ 8 309 41
DEDUCTIONS			
12. Expenses (except amounts reported in Item 2 above, or called for separately below) (attach Schedule A12)		861 80	
13. Compensation of partners or stockholders in whatever form paid (attach Schedule A13)		2 400 00	
14. Repairs (including labor, supplies, etc.) (attach Schedule A14)		63 19	
15. Interest (attach Schedule A15)		103 05	
16. Taxes (attach Schedule A16)		59 00	
17. Bad debts (attach Schedule A17)		23 53	
18. Exhaustion, wear and tear (including obsolescence) (attach Schedule A18)		379 20	
19. Depletion (attach Schedule A19)			
20. Amortization of War facilities (attach Schedule A20)			
21. TOTAL OF ITEMS 12 TO 20			3 889 77
22. ITEM 11 MINUS ITEM 21			4 419 64
23. Profit or loss on sales of capital assets and miscellaneous investments (attach Schedule A23)			
24. Losses sustained by fire, storm, etc. (attach Schedule A24). Extend difference between or sum of Items 23 and 24			
25. NET INCOME TO BE ACCOUNTED FOR BY MEMBERS (ITEM 22 MINUS ITEM 24 EXTENDED)			4 419 64

SCHEDULE B—PARTNERS' OR STOCKHOLDERS' SHARES OF INCOME AND CREDITS.

Enter below the share of net income (whether distributed or not) of each member of the partnership or stockholder of the personal service corporation (except interest on obligations of the United States), each partner's or stockholder's share of any income tax paid at source on tax-free covenant bonds, and any income and profits taxes paid by the partnership or corporation to a foreign country or to a possession of the United States (See page 1 of Instructions, paragraphs 8 to 14, inclusive.)
If the distributable interests in the net income are determined on a basis other than a percentage basis, attach an explanatory statement

MEMBERS OF PARTNERSHIP OR STOCKHOLDERS OF PERSONAL SERVICE CORPORATION 1 Name and address of each, as shown on individual tax returns	2 Interest in partnership or number of shares held in corporation.	3 DIVIDENDS SUBJECT TO SURTAX ONLY (ITEM 9 ABOVE)	4 OTHER INCOME ITEM 25 MINUS ITEM 9	5 TAX PAID AT SOURCE ON TAX-FREE COVENANT BONDS	6 INCOME AND PROFITS TAXES PAID TO A FOREIGN COUNTRY OR TO A POSSESSION OF THE UNITED STATES
(a) C. W. Keeland, 952 Park Ave., Cincinnati	One-half		2209 82		
(b) A. D. Munson, 814 Walnut St., Cincinnati	One-half		2209 82		
(c)					
(d)					
(e)					
(f)					
(g)					
(h)					
(i)					
(j)					
(k) TOTALS			4419 64		

The undersigned, being severally duly sworn, each for himself deposes and says that this return, including the accompanying schedules and statements, has been examined by him and is to the best of his knowledge and belief a true and complete return, made in good faith, for the accounting period as stated, pursuant to the Revenue Act of 1921 and the Regulations issued under the authority thereof

Sworn to and subscribed before me this ..... day of ....., 1923

Seal of officer making affidavit.

(Signature of officer administering oath)

(official capacity)

President of corporation.
Member of partnership.

Treasurer of corporation.

(An amended return must be plainly marked "Amended" across the face of the return)

3—11-23

Illustration No. 164, Page 1 of Partnership Income Tax Return.

SCHEDULE C—RECONCILIATION OF NET INCOME AND ANALYSIS OF CHANGES IN SURPLUS.

1. Net income from Schedule A, Item 25		4 419 64
2. Interest on obligations of the U. S. issued since September 1, 1917 (except Victory Liberty Loan 3½% Notes)		
3. Income not to be accounted for by members		
(a) Interest on obligations of the United States issued before September 1, 1917, Victory Liberty Loan 3½% Notes, and obligations of United States possessions		
(b) Interest on obligations of States, Territories, and political subdivisions thereof		
(c) Interest on Farm Loan Bonds issued under Federal Farm Loan Act		
(d) Dividends on stock of personal service corporations from net income earned during the period between January 1, 1918, and the beginning of present accounting period		
(e) Other items (to be detailed)		
(1)		
(2)		
(3)		
4. Charges against reserve for bad debts (if Item 17, Schedule A, is not an addition to reserve)		
5. Charges against reserves for contingencies, etc. (to be detailed)		
(a)		
(b)		
(c)		
6. Total of Items 1 to 5, inclusive		4 419 64
7. Total from Item 15		25 00
8. Net profit for period as shown by books, before any adjustments are made (serves Item 6 minus Item 7)		4 394 64
9. Surplus and undivided profits as shown by balance sheet at close of preceding accounting period		
10. Other credits to surplus (to be detailed):		
(a)		
(b)		
11. Total of Items 8 to 10, inclusive		
12. Total from 18		
13. Surplus and undivided profits as shown by balance sheet at close of accounting period (Item 11 minus Item 12)		

14. Unallowable deductions:		
(a) Donations, gratuities, and contributions		
(b) Income and profits taxes paid to the United States, its possessions or a foreign country		
(c) Special improvement taxes tending to increase the value of the property assessed		
(d) Furniture and fixtures, additions, or betterments treated as expenses on the books		
(e) Replacements and renewals		
(f) Insurance premiums paid on the life of any officer or employee for the benefit of the corporation or business		
(g) Interest on indebtedness incurred for the purchase of bonds and other obligations, the interest on which is wholly exempt from tax except interest on indebtedness incurred to purchase or carry Victory Liberty Loan 3½% Notes, originally subscribed for by the taxpayer		
(h) Additions to reserve for bad debts which are not included in Item 17, Schedule A		
(i) Additions to sinking fund reserve, and other contingencies (to be detailed):		
(1)		
(2)		
(3)		
(j) Other unallowable deductions (to be detailed): Fine		25 00
(1)		
(2)		
(3)		
15. Total of Item 14		25 00
16. Dividends or withdrawals (state whether paid in cash, stock of this company, or other property):		
(a) Date paid. Character.		
(b) Date paid. Character.		
(c) Date paid. Character.		
(d) Date paid. Character.		
17. Other debits to surplus (to be detailed):		
(a)		
(b)		
18. Total of Items 16 and 17		

SCHEDULE D—BALANCE SHEETS.

Attach hereto balance sheets as at the beginning and end of the accounting period (preferably in parallel columns), showing as nearly as practicable the details called for below: (These balance sheets should be prepared from the books and should be in agreement therewith, or any differences should be reconciled.)

ASSETS.

Cash (including cash in bank and on hand, certificates of deposit, etc.)
Trade accounts (less deductions for reserves for losses).
Notes receivable from customers.
Other accounts and notes receivable (to be classified).
Inventories:
Raw materials.
Work in progress.
Finished products.
Supplies.
Investments:
Bonds—
U. S. bonds and obligations (each issue to be stated separately)
Exempt (municipal, State, etc.)
Other
Stock of corporations—
Foreign
Domestic.
Loans and advances:
To members and employees
To others.
Deferred charges to future operations (to be detailed)

ASSETS (Continued)

Fixed assets:
Land.
Buildings.
Machinery.
Tools and minor equipment.
Delivery equipment.
Office furniture.
Other (state character).
TOTAL.
Less reserves for depreciation and depletion (show separately amount applicable to each fixed asset).*
NET VALUE.
Patents, good will, and other intangible assets:
Paid for in cash or other tangible property.
Paid for in stock (other than stock dividends) or in shares of a partnership.
Created by stock dividends or otherwise.
Discount:
On bonds.
On stock.
TOTAL.

LIABILITIES.

Loans and notes payable:
To members.
To others (including bank loans).
Accounts payable:
Trade.
Other.
Accrued expenses and reserves, the charges creating which are allowable deductions from income (to be detailed).
Reserves, the charges creating which are not allowable deductions from income (to be detailed):
Reserves for losses on notes and accounts receivable.
Other reserves (to be detailed).
Capital stock outstanding (to be classified) or all partners' capital and current accounts (to be detailed).
Surplus and undivided profits.
TOTAL.

*Reserves for depreciation may be deducted from the respective asset accounts or itemized on the liability side of the balance sheet.

QUESTIONS.

KIND OF BUSINESS.

1. By means of the key letters given below, identify the corporation's main income producing activity with one of the general classes, and follow this by a special description of the business sufficient to give the information called for under each general class:

A—Agriculture and related industries, including fishing, logging, ice harvesting, etc., and also the leasing of such property. State the product or products. **B**—Mining and quarrying, including gas and oil wells, and also the leasing of such property. State the product or products. **C**—Manufacturing. State the product and also the material if not implied by the name of the product. **D**—Construction—excavations, buildings, bridges, railroads, ships, etc., also equipping and installing same with systems, devices, or machinery, without their manufacture. State nature of structures built, materials used or kind of installations. **E**1—Transportation—rail, water, local, etc. State the kind and special product transported, if any. **E**2—Public utilities—gas (natural, coal or water), electric light or power (hydro or steam generated), heating (steam or hot water), telephone, waterworks or power. **E**3—Storage—without trading or profit from sales (elevator, warehouses, stockyards, etc.) State product stored. **E**4—Leasing transportation or other kind of property. **F**—Trading in goods bought and not produced by the trading concern. State manner of trade, whether wholesale, retail, or commission, and the product handled. Rate with letters with profit primarily from sales. **G**—Service—domestic, including hotels, restaurants etc., amusements, other professional, personal, or technical service. State the service. **H**—Finance, including banking, real estate, insurance. **I**—A concern not falling in above classes (a) because of combining several of them with no predominant business or (b) for other reasons.

2. Concerns whose business involves activity falling in two or more of the above general classes, where the *same product* is concerned, should report business as identified with but one of the above general classes; for example, concerns in A or B which also transport and market their own product exclusively or mainly should still be identified with classes A or B, concerns in C (manufacturing) which own or control their source of material supply in A or B and which also transport, sell, or install their own product exclusively or mainly, should be identified with manufacture, concerns in D may control or own source of supply of materials used exclusively or mainly in their constructive work, concerns in E1 or E2 may own or control the source of their material or power, concerns in F may transport or store their own merchandise, but its production would identify them with A, B or C.

3. Answers

(a) General class (use key letter designation) ..... F

(b) Main income producing business (Give specifically the information called for under each key letter, also whether acting as principal or agent on commission. State if inactive or in liquidation.)

Retail business.

Products: hay, grain, feed and coal.

4. A service corporation must explain its business in sufficient detail to justify its claim to be classed as such. If the character of the business is different from that carried on during the preceding accounting period, the nature of the change must be explained. Where necessary, the statement should be made on a separate sheet, which should be firmly attached to this return.

OTHER CORPORATIONS IN SAME BUSINESS.

5. Attach hereto a list of the names and addresses of five representative corporations in your locality or section of the country engaged in the same kind of business.

ORGANIZATION OR INCORPORATION.

6. Date of organization or incorporation ..... January 1, 1921.

7. If incorporated, under the laws of what State? .....

8. Is the corporation a successor to or was it formed to take over or conduct part of the business of another corporation? ..... If so, state name and address of predecessor or other organization and, in the latter case, the financial, managerial, and contractual relationships existing between yourselves and the other organization .....

VALUATIONS OF CAPITAL STOCK.

9. What was the fair value of the total capital stock of the corporation as determined in the last assessment if any, of the capital stock tax? .....

Date of that assessment .....

AFFILIATIONS WITH CORPORATIONS.

10. Does the corporation own directly or control through closely affiliated interests or by a nominee or nominees over 70 per cent of the outstanding voting capital stock of another corporation? .....

11. Is over 70 per cent of your voting capital stock owned by another corporation or by two or more corporations that are affiliated? .....

12. Is over 70 per cent of your voting capital stock as well as over 70 per cent of the voting capital stock of another corporation or of other corporations owned or controlled by the same individuals or partnership or by the same individuals or partnership? .....

13. If the answer to questions 10, 11, and 12, or any of them, is "yes," the following information should be furnished as of the beginning of the accounting period, indicating any substantial changes during such period.

NAME OF SHAREHOLDER.	(Name of corporation.) (Address.)		(Name of corporation.) (Address.)	
	Shares held.	Percentage of stockholdings.	Shares held.	Percentage of stockholdings.
Total				
Shares outstanding beginning of year				
Shares outstanding end of year				

(a) Separate statements should be submitted for common and preferred stock indicating (1) whether it had full voting privileges during the entire accounting period, (2) whether the voting privileges were cumulative, (3) whether these voting privileges were exercised during the accounting period, (4) the conditions by which these voting privileges may be sacrificed or acquired.

(b) State the dividend privileges of the respective classes of stock, the rate of dividends paid during the accounting period, the date and rate of last dividend payment and whether, and under what conditions, the preferred stock participates in the earnings above the fixed dividend rate.

(c) State if the preferred stock has preference in respect to distribution of assets, dividends or otherwise.

(d) Show separately the number of shares of each class held by the respective stockholders of each company, except where impracticable by reason of the large number of stockholders. Under such conditions show only those holding stock in two or more of the affiliated corporations.

(e) Indicate whether any of the stock was held during the accounting period conditionally or by agreement, expressed or implied, and state whether such arrangements are considered valid, giving supporting reasons.

(f) Indicate whether any stock is held by employees or officers and state their relationship to the corporation and the conditions, either expressed or implied, under which such stock was acquired and was held during the accounting period. Also submit the following information in respect to such stockholders as of the date of acquisition: (1) Par value of stock, (2) book value of stock, (3) market value of stock, (4) consideration or amount paid for such stock, (5) method of payment for such stock.

(g) If the stock in any one or more of the corporations is held by members of one family, or related families, state the relations existing between the various stockholders and whether such stock was acquired by gift, purchase, or otherwise.

(h) Explain fully the nature and extent of any intercompany transactions or arrangement which may effect an artificial distribution of profits or assign to any one of the affiliated corporations a disproportionate share of net income or unrealized profits.

Foreign corporations may not be included in consolidations.

GOVERNMENT CONTRACTS.

14. Have any adjustments during the accounting period been made on account of contract or contracts with the Government or its agencies or from any Government contract or contracts in which you derived income directly or indirectly, through the operations of a claim board or otherwise? (Answer "Yes" or "No".) No

If so, state the amounts involved, $..... whether or not such amounts are included in this return ..... and, if not was an amended return accounting for the additional income filed for accounting period in which the contract was terminated? ..... Submit a schedule showing full particulars of the contract, date entered into, date the work ceased under said contract or contracts, and the amount and nature of the adjustment.

AMORTIZATION.

15. Has amortization been claimed? (Answer "Yes" or "No".) ..... If so, for what year ..... Amount, $.....

LIST OF ATTACHED SCHEDULES.

16. Attach a list of schedules accompanying this return, giving for each a brief title and a schedule number. (See paragraph at top of page 2 of Instructions.)

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Illustration No. 165, Page 2 of Partnership Income Tax Return.

Page 1 of Instructions.

GENERAL INSTRUCTIONS.

Partnership and Personal Service Corporation Return of Income.

PARTNERSHIPS AND PERSONAL SERVICE CORPORATIONS REQUIRED TO MAKE A RETURN OF INCOME.

1. *Partnerships.*—Every partnership, whether domestic or foreign, doing business in the United States must make a return of income on this form regardless of the amount of its gross or net income. (See Sections 218 and 224 of Revenue Act of 1921.)

2. *Personal service corporations.*—Every personal service corporation must make a return of income on this form regardless of the amount of its gross or net income. (See Section 218 of Revenue Act of 1921.)

3. *Personal service corporation defined.*—The term "personal service corporation" means a corporation, not expressly excluded, the income of which is derived from a profession or business (*a*) which consists principally of rendering personal service, (*b*) the earnings of which are to be ascribed primarily to the activities of the principal owners or stockholders, and (*c*) in which the employment of capital is not necessary or is only incidental. (See Section 200, paragraph 5, Revenue Act of 1921.)

4. *Corporations excluded.*—The following classes of corporations are expressly excluded from classification as personal service corporations: (*a*) Foreign corporations; (*b*) corporations 50 per cent or more of whose gross income consists of gains, profits, or income derived from trading as a principal; and (*c*) corporations 50 per cent or more of whose gross income consists of gains, profits, commissions, or other income derived from a Government contract or contracts made between April 6, 1917, and November 11, 1918, inclusive.

A corporation is not a personal service corporation merely because less than 50 per cent of its gross income was derived from trading as a principal or from Government contracts. A corporation can not be considered a personal service corporation when another corporation owns or controls substantially all of its stock, or when substantially all of its stock and of the stock of another corporation (not itself a personal service corporation) forming part of the same business enterprise is owned or controlled by the same interests. (See Sections 200 and 240 of the Revenue Act of 1921.)

5. *More than one business.*—A corporation engaged in two or more professions or businesses which are more or less related, one of which does not consist of rendering personal service, is not a personal service corporation unless the nonpersonal service element is negligible or merely incidental and no appreciable part of its earnings are to be ascribed to such sources. (See also Section 303 of the Revenue Act of 1921.)

6. *Activities of stockholders.*—In determining whether a corporation is a personal service corporation, no weight can be given to the fact that it renders personal services unless (*a*) the principal owners or stockholders are regularly engaged in the active conduct of its affairs, and are engaged in such a manner that the earnings are to be ascribed primarily to their activities, and (*b*) its affairs are conducted principally by such owners or stockholders. If employees contribute substantially to the services rendered by a corporation, it is not a personal service corporation unless in every case in which services are so rendered the value of and the compensation charged for such services are to be attributed primarily to the experience or skill of the principal owners or stockholders.

7. *Stock interest of active members.*—No corporation or its owners or stockholders shall make a return in the first instance on the basis of its being a personal service corporation unless at least 80 per cent of its stock is held by those regularly engaged in the active conduct of its affairs.

8. *Capital.*—In determining whether a corporation is a personal service corporation, no weight can be given to the fact that the invested capital of the corporation under Title III of the Act or the actual investment of the principal owners or stockholders is comparatively small. If the use of capital is necessary or more than incidental, capital is a material income-producing factor and the corporation is not a personal service corporation.

INSTRUCTIONS FOR FILLING IN SCHEDULE B, PAGE 1.

9. This Schedule is to be used for showing the share of each partner or stockholder in the income of the partnership or personal service corporation, whether distributed or not. Where the ownership of a personal service corporation has changed during the accounting period, the distributed portion of the net income is taxable to the recipients, while the undistributed portion is taxable to the owners as at the end of the accounting period.

10. Enter on lines (*a*), (*b*), (*c*), etc., the proportionate amount of the totals shown in columns 3 and 4 to which each individual partner or stockholder is entitled, whether distributed or not. If the amount to be entered in column 4 is a loss, the amount should be indicated by red ink or a minus sign.

11. If the partnership or personal service corporation received directly or through another partnership, personal service corporation, or a fiduciary, interest on corporation bonds containing a clause by which the debtor corporation agrees to pay the interest without any deduction for taxes, and there were filed with such interest coupons a white certificate, Form 1000, not claiming exemption, a tax of 2 per cent was paid at the source, and this tax should be allocated to the members or stockholders in column 5.

12. If any amount is entered in column 6, a copy of Form 1116, completely filled in and sworn to or affirmed, must be submitted with this return. If such taxes have been paid, Form 1116 must have attached to it the receipt or other evidence of each such tax payment. If such taxes have been accrued, Form 1116 must have attached to it a copy of the return on which each such accrued tax was based, or other evidence as to the accrual of taxes.

13. When a credit is claimed on Form 1040 or Form 1040A for accrued taxes, the Commissioner may, as a condition precedent to the allowance of such credit, require the taxpayer to give a bond (Form 1117), with sureties satisfactory to and to be approved by him, in such penal sum as he may require, conditioned for the payment by the taxpayer of any amount of taxes found due if the taxes when paid differ from the amount claimed in respect thereof.

INTEREST ON LIBERTY BONDS, ETC.

14. In case the partnership or personal service corporation owned Liberty Bonds or other obligations of the United States issued since September 1, 1917 (except Victory Liberty Loan 3¼% Notes, and postal saving certificates of deposit), or a share of these obligations held by another partnership, personal service corporation, or a fiduciary, the partnership or personal service corporation should advise each partner or stockholder as to his proportionate amount of these obligations and the interest thereon, in order that the partner or stockholder may determine whether the interest is taxable on his individual income-tax return.

PERIOD COVERED.

15. The accounting period is the calendar year ending December 31, 1921, or the fiscal year ending on the last day of any month other than December in the calendar year 1921. The accounting period established for the year immediately preceding must be adhered to, unless permission was received from the Commissioner to make a change.

16. If a partnership or corporation changes its accounting period, it shall as soon as possible give to the collector for transmission to the Commissioner written notice of such change and of its reasons therefor. Upon approval by the Commissioner, the taxpayer shall thereafter make his returns upon the basis of the new accounting period. (See Sections 212 (*e*) and 226, Revenue Act of 1921.)

TIME AND PLACE FOR FILING.

17. Returns must be sent to the Collector of Internal Revenue for the district in which the partnership's or corporation's principal place of business is located, so as to reach the Collector's office on or before the 15th day of the third month following the close of the accounting period.

SIGNATURES AND VERIFICATION.

18. Returns of partnerships must be sworn to by a member of the partnership. Corporation returns must be sworn to by the president, vice president, or other principal officer and by the treasurer or assistant treasurer of the corporation. If receivers, trustees in bankruptcy, or assignees are operating the property or business of the partnership or corporation, such receivers, trustees, or assignees shall execute the return under oath.

PENALTY FOR FAILURE TO FILE RETURN ON TIME.

19. A penalty of not more than $1,000 attaches for failure to file a return within the time required by law. If the failure is willful or an attempt is made to defeat or evade the tax, the penalty is an amount not in excess of $10,000 or imprisonment for not more than one year, or both, together with costs of prosecution.

INFORMATION AT THE SOURCE.

20. Every corporation making payments of salaries, wages, interest, rent, commissions, or other fixed or determinable income of $1,000 or more during the calendar year, to any individual or partnership, is required to make a true and accurate return to the Commissioner of Internal Revenue, showing the nature and source of such payments and the name and address of the recipient. Forms 1096 and 1099, for reporting such information, will be furnished by any collector of internal revenue. Such returns of information covering the calendar year 1921 must be forwarded to the Commissioner of Internal Revenue, Sorting Section, Washington, D. C., in time to be received not later than March 15, 1922.

3—11743 GOVERNMENT PRINTING OFFICE

Illustration No. 166, Page 1 of Instructions for Partnership Return.

Page 2 of Instructions.

SCHEDULES TO BE FURNISHED IN SUPPORT OF ITEMS IN SCHEDULE A.

The schedules called for below should be prepared and firmly attached to the return. Designate each schedule with the number of the item in Schedule A which it explains. Make schedules on paper of uniform size, so far as practicable, and enter the name and address on each sheet. Attach a list of schedules accompanying the return, giving for each a brief title and schedule number.

SCHEDULE A2: COST OF GOODS SOLD, EXCLUSIVE OF EXPENSES, REPAIRS, AND OTHER ITEMS CALLED FOR SEPARATELY.

If you are engaged in a trade or business in which the production, purchase, or sale of merchandise is an income-producing factor, (*a*) secure from the Collector of Internal Revenue and file as a part of this return **Certificate of Inventory, Form 1126,** and (*b*) submit a schedule showing—

(1) Cost of merchandise bought for sale.
(2) Cost of manufacturing or otherwise producing goods (List principal items of cost, grouping minor items in one amount.)
(3) Plus inventory at beginning of year.
(4) Total of Items 1 to 3, inclusive
(5) Less inventory at end of year
(6) Cost of goods sold, Item 4 minus Item 5

SCHEDULE A3: GROSS INCOME FROM SERVICES OR OPERATIONS OTHER THAN TRADING OR MANUFACTURING, LESS ALLOWANCES.

Submit a schedule showing the nature and amount of the principal items included herein, the minor items being grouped in one amount.

SCHEDULE A8: DIVIDENDS SUBJECT TO SURTAX ONLY.

Submit a schedule showing the amount received as dividends (*a*) from each domestic corporation other than a corporation entitled to the benefits of Section 262 of the Revenue Act of 1921, or (*b*) from each foreign corporation when it is shown to the satisfaction of the Commissioner that more than 50 per centum of the gross income of such foreign corporation for the three-year period ending with the close of its taxable year preceding the declaration of such dividends (or for such part of such period as the corporation has been in existence) was derived from sources within the United States as determined under the provisions of Section 217 of the Act.

SCHEDULE A9: DIVIDENDS SUBJECT TO BOTH NORMAL AND SURTAX.

Submit a schedule showing dividends subject to both normal and surtax, whether received from foreign or domestic corporations, and which are not allowed as a credit under Section 216 of the Revenue Act of 1921.

SCHEDULE A10: OTHER INCOME (not including any amount with respect to sales of capital assets or miscellaneous investments nor interest on Liberty Bonds).

Submit a schedule showing the source, nature, and amount of the principal items included herein, the minor items being grouped in one amount.

SCHEDULE A12: ORDINARY AND NECESSARY EXPENSES (except amounts called for separately in Schedule A).

Submit a schedule showing character and amount of the principal items included herein, the minor items being grouped in one amount.

SCHEDULE A13: COMPENSATION OF PARTNERS OR SHAREHOLDERS.

Submit a schedule showing for each member of the partnership or stockholder of the corporation who was performing active service or who received compensation in any form from the partnership or corporation, (*a*) name, (*b*) duties, (*c*) time devoted to such duties, and (*d*) total compensation for the accounting period. A personal service corporation should also explain fully the manner and degree in which the earnings of the corporation are dependent on the activities of the stockholders.

SCHEDULE A14: REPAIRS (including labor, supplies, overhead, and other items properly chargeable to repairs).

Submit a schedule showing the nature and amount of the principal items included herein, the minor items being grouped in one amount.

Incidental repairs, which do not add to the value or appreciably prolong the life of property, are deductible as expenses. Expenditures for new buildings or for permanent improvements or betterments which increase the value of the property are chargeable to capital account. Expenditures for restoring or replacing property are not deductible under this or any other item of the return. Such expenditures are chargeable to capital account or to depreciation reserves, depending on the treatment of depreciation on the books of the taxpayer.

SCHEDULE A15: INTEREST.

Submit a detailed schedule with respect to interest paid or credited to any member. State the character and origin of the principal on which the interest was computed, and whether such principal is evidenced by notes or other forms of contract. Describe fully.

The amount of interest deductible under Item 15, Schedule A, is the amount of interest paid or accrued within the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations or securities (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest upon which is wholly exempt from taxation.

SCHEDULE A16: TAXES.

Submit a schedule showing taxes paid or accrued within the taxable year except (*a*) income, war profits and excess profits taxes imposed by the authority of the United States, (*b*) so much of the income, war profits and excess profits taxes, imposed by the authority of any foreign country or possession of the United States, as is allowed as a credit under Section 222, Revenue Act of 1921, (*c*) taxes assessed against local benefits of a kind tending to increase the value of the property assessed, and (*d*) taxes imposed upon the taxpayer upon his interest as shareholder or member of a corporation, which are paid by the corporation without reimbursement from the taxpayer.

SCHEDULE A17: BAD DEBTS.

Submit a schedule showing debts, or portions thereof, arising from sales or professional services that have been reported as income, which have been definitely ascertained to be worthless and charged off within the accounting period, or such reasonable amount as has been added to a reserve for bad debts within the year.

If the amount entered as Item 17, Schedule A, is an addition to a reserve, furnish proof of the reasonableness of the amount. (See Section 234 (*a*) 5 of the Revenue Act of 1921.)

SCHEDULE A18: EXHAUSTION, WEAR AND TEAR (including obsolescence).

Submit a schedule in columnar form showing for each class of property the following information:

(1) Kind of property (if buildings, state material of which constructed).
(2) Date acquired.
(3) Age when acquired
(4) Cost, or if acquired prior to March 1, 1913, the fair market value on that date.
(5) Probable life after acquirement.
(6) Amount of depreciation charged off this year.
(7) Total amount of depreciation charged off previous to this year.

The total amount claimed in this schedule should correspond with the figures reflected in the balance sheet.

If obsolescence is a factor in determining your deduction, attach a statement showing the amount claimed for the accounting period and the basis on which computed.

The amount deductible on account of depreciation is an amount charged off which fairly measures the loss during the accounting period in the value of physical property by reason of exhaustion, wear, tear, and obsolescence. Such an amount should be determined on the basis of the cost of the property, or if acquired prior to March 1, 1913, the fair market value on that date and the probable number of years constituting its life. The capital sum to be replaced should be charged off over the probable life of the property either in equal annual installments or in accordance with any other recognized trade practice, such as an apportionment of the capital sum over units of production. Whatever plan or method of apportionment is adopted must be reasonable and should be described in the return. Stocks, bonds, and like securities are not subject to exhaustion, wear and tear within the meaning of the law.

SCHEDULE A19: DEPLETION.

If a deduction is claimed on account of depletion, secure from the Collector Form D (minerals), Form E (coal), Form F (miscellaneous nonmetals), Form O (oil and gas), or Form T (timber), fill in and file with return. If complete valuation data has been filed with questionnaire in previous years, then file with this return information necessary to bring your depletion schedule up to date, setting forth in full statement of all transactions bearing on deductions or additions to value of physical assets with explanation of how depletion deduction for the accounting period has been determined. In case of timber this should be done by filling in Form T (timber).

SCHEDULE A20: AMORTIZATION OF WAR FACILITIES.

In case a deduction is claimed on account of amortization, a schedule should be submitted containing the information called for in Guide Form 1007M, which explains in detail the manner in which a claim of this nature should be presented. A copy of this form may be obtained from the Commissioner. (See Section 214 (*a*) 9 of the Revenue Act of 1921.)

SCHEDULE A23: PROFIT OR LOSS ON SALES OF CAPITAL ASSETS AND MISCELLANEOUS INVESTMENTS.

Submit a schedule in columnar form showing the following information for each asset sold:

(1) Kind of property.
(2) Date acquired.
(3) Sale price.
(4) Cost.
(5) Fair market value on March 1, 1913, if acquired prior to that date.
(6) Cost of subsequent improvements.
(7) Depreciation.
(8) Net profit (or loss).
(9) Amount in column 5 which represents good will, if any.

If any of the assets were acquired prior to March 1, 1913, state how the fair market value on that date was determined.

In case of exchange of property, submit evidence substantiating the basis used in arriving at the fair market value of the property received.

SCHEDULE A24: LOSSES SUSTAINED BY FIRE, STORM, ETC.

A schedule similar to the one requested above should be submitted with respect to losses of property arising from fires, storms, shipwreck, or other casualty, or from theft, and not compensated for by insurance or otherwise, except that column 3 should show "Insurance and salvage" instead of "Sale price."

CAPITAL EMPLOYED IN BUSINESS.

If the balance sheet (Schedule D) of a personal service corporation indicates that a substantial amount of capital (invested or borrowed) is employed in the business, submit a statement explaining why the employment of such capital is incidental and not necessary.

WORKING PAPERS.

Every partnership or corporation should preserve, available for inspection by a revenue officer, working papers showing—

1. The balance in each account on the partnership's or corporation's books that was used in preparing Schedule A.
2. The amount deducted from each such balance on account of each class of non-taxable income, unallowable deductions, and other adjustments indicated in Schedule C, with a reference to the number of the item in Schedule C in which each amount so deducted was included
3. The remainder of each such balance, analyzed to show the amount included in each item of Schedule A, with a reference to the number of the item in Schedule A.

2—11749

Illustration No. 167, Page 2 of Instructions for Partnership Return.

Form 1120
U. S. Internal Revenue

THIS RETURN SHOULD BE FILED NOT LATER THAN THE 15TH DAY OF THE THIRD MONTH FOLLOWING THE CLOSE OF THE TAXABLE PERIOD

CORPORATION INCOME AND PROFITS TAX RETURN
FOR CALENDAR YEAR 192

Page 1 of Return
(DO NOT WRITE IN THESE SPACES)
Examined by

FIRST PAYMENT $

Cashier's Stamp

Or for period begun ..... , 192 , and ended ..... , 192

PRINT PLAINLY CORPORATION'S NAME AND BUSINESS ADDRESS

J. A. Whitney & Co.
(Name)

816 Main Street.
(Street and number)

Cincinnati, Ohio.
(Post office and State)

CASH CHECK M. O. CERT. OF IND.

KIND OF BUSINESS Wholesale Grocery IS THIS A CONSOLIDATED RETURN? No

SCHEDULE A—TAXABLE NET INCOME.

GROSS INCOME.					
1. Gross sales, less returns and allowances	$ 108 393 73				
2. Less cost of goods sold, exclusive of items called for separately below (from Schedule A2)	74 058 41	$ 34 335 32			
3. Gross income from operations other than trading or manufacturing, less allowances (from Schedule A3)		1 444 96			
4. Taxable interest on Liberty Bonds, etc. (from Schedule A4)					
5. Taxable interest from all other sources		101 73			
6. Rents		138 94			
7. Royalties					
8. Share of net income earned by personal service corporation (whether received or not)					
9. Dividends on stock of foreign and domestic corporations					
10. Gross income from all other sources (not including any amount reported in Item 23, below) (from Schedule A10)		85 00			
11. TOTAL OF ITEMS 1 TO 10				$ 36 105 95	
DEDUCTIONS.					
12. Expenses (except amounts reported in Item 2 above, or called for separately below) (from Schedule A12)		$ 23 248 31			
13. Compensation of officers (in whatever form paid) (from Schedule A13)		6 000 00			
14. Repairs (including labor, supplies, etc.) (from Schedule A14)		1 018 60			
15. Interest (see page 2 of Instructions, paragraph 9)		207 93			
16. Taxes (from Schedule A16)		822 80			
17. Bad debts (from Schedule A17)		108 56			
18. Exhaustion, wear and tear (including obsolescence) (from Schedule A18)		286 22			
19. Depletion (from Schedule A19)					
20. Amortization of war facilities (from Schedule A20)					
21. TOTAL OF ITEMS 12 TO 20				$ 30 092 12	
22. ITEM 11 MINUS ITEM 21				$ 6 013 83	
23. Profit or loss on sales of capital assets and miscellaneous investments (from Schedule A22)	$				
24. Losses by fire, storm, etc (From Schedule A24.) (Extend difference between or sum of Items 23 and 24					
25. Net income exclusive of deductions for dividends (Item 22 minus 24, extended)				$	
26. Dividends deductible under Section 234(a) 6 of the Revenue Act of 1921, (from Schedule A26)					
27. NET INCOME (Item 25 minus Item 26) (If return is for a period less than twelve months, see page 1 of Instructions, paragraph 10)				$ 6 013 83	

SCHEDULE B—INVESTED CAPITAL.

1. Capital, surplus, and undivided profits at beginning of taxable period (from Schedule E, Item 11)		$ 37 328 41	
2. Plus adjustments by way of additions (from Schedule F, Item 4)			
3. TOTAL		$ 37 328 41	
4. Less adjustments by way of deductions (from Schedule G, Item 7)		5 063 46	
5. REMAINDER		$ 32 264 95	
6. Plus or minus changes in invested capital during taxable period (net increase or decrease from Schedule H)		6 583 17	
7. TOTAL (OR REMAINDER)		$ 38 848 11	
8. Less deduction on account of inadmissible assets (from Schedule J)			
9. Invested capital for taxable period		$ 38 848 11	

SCHEDULE C—EXCESS PROFITS CREDIT.

1. Eight per cent of invested capital for taxable period (Item 9 of Schedule B)	$ 3 107 85	
2. Exemption ($3,000) (except for a foreign corporation or a corporation satisfying the conditions provided in Section 262 of the Act)	3 000 00	
3. Excess Profits Credit (Item 1 plus Item 2)	$ 6 107 85	

SCHEDULE D—COMPUTATION OF TAXES.

1. BRACKETS.	2. NET INCOME (ITEM 27, SCHEDULE A).	3. EXCESS PROFITS CREDIT (ITEM 3, SCHEDULE C).	4. BALANCE SUBJECT TO TAX	5. RATE.	6. AMOUNT OF TAX.
1. Net income, not in excess of 20 % of invested capital	$ 6 013 83	$ 6 107 85	$ None	20%	$
2. Balance of net income				40%	
3. Totals computed under Section 301(a)	$	$	$		$
4. Excess Profits Tax, if computed under Sections 302, 303, 301(c) or 337 of the Revenue Act of 1921 (see page 2 of Instructions, paragraph 14)					$
5. Net income (Item 27, Schedule A)	$ 6 013 83	11. Income tax (10% of Item 10)			$ 401 38
6. Less: Taxable interest on obligations of United States (Item 4, Schedule A)	$	12. If net income does not exceed $25,000, enter amount in excess of $2[illegible]			$
7. Excess profits tax (Item 3 or 4 whichever is smaller, in column 6, Schedule D), or		13. Total tax (Item 3 or 4 the lesser, or 5, plus Items 11 and 12)			401 38
8. Profits taxes, if income from Government contracts exceeds $10,000 (Item 16, Form 1120S)		14. Less: Income and profits taxes paid to foreign countries or possessions of the United States (Attach Form 1118) $			
9. Exemption $2,000, for domestic corporation having a net income not exceeding $25,000	2 000 00	15. Tax paid at the source (See Section 238 of the Revenue Act of 1921)			
10. Balance (Item 5, less Items 6, 7, and 9, or Items 6, 8, and 9)	$ 4 013 83	16. Balance of tax (Item 13 minus Items 14 and 15)			$ 401 38

An amended return must be plainly marked "Amended."

Checks and drafts will be accepted only if payable at par.

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Illustration No. 168, Page 1 of Corporation Income Tax Return.

Page 2 of Return.

SCHEDULE E.—CAPITAL, SURPLUS, AND UNDIVIDED PROFITS AS SHOWN BY BOOKS BEFORE ANY ADJUSTMENTS ARE MADE THEREIN.

E1. Stock actually outstanding at the end of the preceding taxable period should be entered in this schedule to the extent that it is paid in. If stock or shares were issued at a nominal value or without par value the entries should reflect the amounts on the books in respect thereof at the close of the preceding taxable period.

E5. This item should include paid-in surplus as shown by books at the end of the preceding taxable period. If any amount is claimed under Section 327 (a) 2 of the Revenue Act of 1921, the amount claimed should be entered under Item 1, Schedule F, and not in this schedule.

E7. Reserves which represent alterations of surplus, and were not accumulated through deductions made in computing net income as returned in previous years may, if properly explained, be entered as Item 7. Such entries should be identified and, if necessary reconciled with balances of net reserves.

E10. If the corporate items on hand at any time during the taxable period any treasury stock, copies of the Journal entries covering the original issuance, repossession and any subsequent adjustments should be furnished. Treasury stock includes all stock reacquired by the corporation and not canceled, regardless of the reason for the reacquisition.

Item.	Amount.
Capital stock paid up and actually outstanding at the close of the preceding year	
1 First preferred	
2 Second preferred	
3 Common	30000.00
4. Total	30000.00
Surplus and undivided profits	
5. Paid in surplus	
6 Earned surplus and undivided profits	7328.41
7. Reserves, additions to which are not deductible in computing net income (to be reconciled with balance sheet items)	
8. Other items (to be detailed)	
9. Total of Items 4, 5, 6, 7, and 8	$ 37328.41
10 Deduction on account of treasury stock	
11 Capital and surplus at beginning of taxable period as shown by books	$ 37328.41

SCHEDULE F.—ADJUSTMENTS BY WAY OF ADDITIONS.

F1. If no addition to invested capital is claimed in Item 1, Schedule F, submit a statement showing (*a*) the kind of property, (*b*) the year in which it was paid in, (*c*) from whom acquired, explaining his relationship to the corporation, (*d*) the actual cash value of such property at the date when paid in, (*e*) the par value of stock or shares issued therefor and the amount at which such property was entered in the accounts, (*f*) the basis upon which the actual cash value of the property was determined and the date when such determination was made, and (*g*) the amount of depreciation sustained on such property from the date of acquisition to the beginning of the taxable period.

F2. If an addition to invested capital is claimed in Item 2, Schedule F, submit a statement showing (*a*) the kind of property, (*b*) the year in which it was acquired, (*c*) its cost, (*d*) the amount of depreciation sustained on such property from the date of acquisition to the beginning of the taxable period. State also whether such item sought to be restored was actually used or unused at the beginning of the taxable period. Were these expenditures, when made, written off in lieu of depreciation? ..... If so, explain what adjustments have been made to provide for depreciation in view of the proposed restoration to surplus. Additions in this item are cumulative to the beginning of the taxable period. For all additions hereunder provision must have been made for depreciation to the beginning of the taxable period.

F3. If any addition to invested capital is claimed in Item 3, Schedule F, state specifically the amount of depreciation written off each year in the books of the company and the amount allowed as a deduction in computing net income. Additions to this item are cumulative to the beginning of the taxable period.

Item.	Amount.
1. Actual cash value of tangible property clearly and substantially in excess of par value of stock issued therefor, and if no par or other consideration paid therefor (see Section 326 (a) 2 of the Revenue Act of 1924)	
2. Additions to surplus (see Section 326 (a) 3 of the Act)	
3. Depreciation or surplus not charged in the accounts of the corporation but disallowed by the Department as a deduction on income tax returns	
4. Total	$

SCHEDULE G.—ADJUSTMENTS BY WAY OF DEDUCTIONS.

G1. Is any patent, copyright, secret process, or formula, good will, trade-mark, trade brand, franchise, or other similar intangible property, paid in for stock, carried as an asset by the corporation? ....Yes.... If not entered specifically as such, is the intangible value merged under any other title or taken off the books or balance sheet submitted with this return? ..... If it entered on the books at a value in excess of its actual cash value when paid in? ....No.... In excess of the par value of the stock issued therefor? ....No.... Is the aggregate of such assets acquired prior to March 3, 1917, entered on the books at a value in excess of 25 per cent of the par value of the stock outstanding on March 3, 1917? ..... If the aggregate of such assets entered on the books at a value in excess of 25 per cent of the par value of the stock outstanding at the beginning of the taxable period? ....No.....

If the answer to any of the foregoing questions is "Yes," submit a statement showing separately with respect to such assets acquired (*a*) before March 3, 1917, and (*b*) on or after that date, (*c*) date of acquisition, (*d*) cash value at that date, with a complete explanation of the basis upon which such cash value was determined, (*e*) par value of the stock issued therefor, (*f*) par value of total stock outstanding March 3, 1917, (*g*) par value of total stock outstanding at the beginning of the taxable period, (*h*) the value at which such assets are entered on the books of the corporation.

If all the intangibles were acquired before March 3, 1917, the amount by which (*f*) exceeds (*h*), (*e*), 25 per cent of (*d*), or 25 per cent of (*e*), whichever is lowest, must be entered as Item 1, Schedule G, for the taxable period.

If the intangibles were acquired on or after March 3, 1917, the amount by which the entry in (*f*) relating to such intangibles exceeds (*h*) or (*e*) relative thereto, or 25 per cent of (*e*), whichever is lowest, must be included in Item 1, Schedule G, for the taxable period. *Provided*, That if intangibles were acquired before March 3, 1917, and also on or after that date, deduction shall be made so that the amount included in invested capital for the aggregate of such intangibles shall not exceed 25 per cent of the par value of the total stock outstanding at the beginning of the taxable period.

NOTE.—If the stock of the corporation was issued at a nominal value or without par value, for the purpose of the computation under Item 1, the par value shall be deemed to be the fair market value as of the date of dates of issue. The aggregate value so determined of stock outstanding on March 3, 1917, or at the beginning of the taxable period, shall be the basis for the computation.

G2. Is any tangible property paid in for stock, carried as an asset by the corporation? ....No.... If so, is it entered on the books at a value in excess of its actual cash value when received? ..... In excess of the par value of the stock paid therefor? .....

If the answer to either of the last two questions is "yes," submit a statement showing (*a*) kind of property, (*b*) when acquired, (*c*) par value of the stock paid therefor, (*d*) actual cash value of the property when paid in, (*e*) the basis on which that value was determined, (*f*) value at which the property is entered on the corporation's books, and (*g*) amount by which such value exceeds the allowable value under Section 326 (a) 2 of the Revenue Act of 1921. Enter this amount as Item 2, Schedule G, for the taxable period.

G3. Was the business reincorporated, reorganized, or consolidated or was its ownership changed or was there a change in ownership of property after March 3, 1917? ....Yes.... If so, answer the following questions.

(*a*) Did an interest of 50 per cent or more in the business or in the property which changed ownership remain in the control of the same persons, corporations, associations, or partnerships, or of any of them? ....Yes.....

(*b*) Were any of the assets entered on the books of the corporation making this return at a higher value than on the books of its predecessor? ....No.....

(*c*) If such previous owner was not a corporation, attach a statement showing (*1*) the cost of acquisition to the previous owner of any asset so transferred or received, (*2*) expenditures subsequent to that date for betterment or development not deducted as expense or otherwise since March 1, 1913, by such previous owner, (*3*) the allowance for depreciation, depletion, or impairment since the date of acquisition by such previous owner.

(*d*) If all, or substantially all of the property was acquired from a corporation during the taxable period, attach hereto balance sheets of such predecessor corporation as at the beginning, the taxable period and as at the date immediately prior to the transfer of the property to the corporation making the return, and also a balance sheet or statement of the corporation making this return showing the values at which such property received or transferred were entered on the books.

For the purpose of determining invested capital each asset so transferred shall be allowed a value (*a*) not greater than would have been allowed to the previous owner, if a corporation; or, (*b*) if not a corporation, at its cost to such previous owner, with proper adjustments for losses and improvements.

G4. Is any property (including physical property, securities, and intangible property) paid for with cash or with other tangible property entered on the books of the corporation at a value in excess of the amount of cash paid therefor or the actual cash value of the tangible property paid therefor? ....Yes.... If so, submit a statement showing (*a*) kind of property, (*b*) amount of cash paid therefor, (*c*) actual cash value of other tangible property paid therefor, (*d*) how that value was determined, (*e*) value at which the property is entered on the books of the corporation, and (*f*) excess of (*e*) over (*b*) or (*c*). This excess must be entered as Item 4, Schedule G, for the taxable period.

G5. Has adequate provision been made in the accounts of the corporation for (*a*) losses of every kind? ....Yes...., (*b*) depreciation? ....Yes...., (*c*) obsolescence? ....Yes...., (*d*) depletion of mineral deposits, timber supplies, and the like? .....

If adequate charge has not been made for depreciation, depletion, obsolescence, and other losses, and the value of the property has not been maintained by replacements that have been charged to expense, proper additional charges thereto must be computed for all years in which they were not made on the books, and the total amount of such charges must be entered as Item 5, Schedule G.

G6. Did the corporation ever receive a stock dividend on stock owned in another corporation? ....No.... If the answer is "yes," state in detail for each stock dividend received, (*a*) date received, (*b*) from whom received, (*c*) number of shares received, (*d*) par value of shares received, (*e*) value at which entered on its books of account, (*f*) whether or not surplus was increased by this value. If answer to (*f*) is "yes," enter the amount by which surplus was increased as Item 6, Schedule G. If answer is "no," state the account in which it was included, (*g*) date of sale of any of the shares of stock received as a stock dividend, (*h*) number of shares sold, (*i*) amount received therefor.

NOTE.—If answers to the foregoing questions indicate that stock dividends received at any time have been treated as an increase of surplus, and such increase is reflected in the computation of invested capital in returns for any or all of the taxable years 1917, 1918, 1919, and 1920, amended returns should be filed for such taxable period or periods in which this error occurred.

Item.	Amount.
1. Valuation of patents, copyrights, secret processes, or formulæ, good will, trade marks, trade brands, franchises, or other intangible property	$ 5063.43
2. Valuation of tangible property paid in for stock	
3. Valuation of assets acquired in reorganizations	
4 Appreciation	
5. Depreciation, depletion, and other losses	
6. Stock dividend on stock held in another corporation	
7 Total Deduction	$ 5063.43

SCHEDULE H.—CHANGES IN INVESTED CAPITAL DURING TAXABLE PERIOD.

1. Changes in invested capital during the taxable period ordinarily arise in one or more of the following ways.

Additions—

(*a*) By sale of capital stock for cash or by the issue of capital stock for tangible or other assets.

(*b*) By payment of assessments by stockholders or by creation of paid-in surplus by contribution of stockholders.

Deductions—

(*c*) By liquidation of part of the capital by retirement of stock or by purchase of treasury stock not out of current earnings.

(*d*) By payment of cash dividends out of earnings of prior years.

(*e*) By payment of Federal income and profits taxes for previous years.

The changes with respect to taxes will occur in nearly every case. Should no changes be noted, the reason for the omission should be stated.

2. The following instructions should be followed in making the above adjustments; each item should be designated as an addition or deduction, deduction being designated by red ink:

(*a*) If stock is issued for cash, the actual cash received (but not the amount of discount) should be entered in this schedule. Assets (other than cash) paid in for stock must be valued in accordance with Section 326 (a) 2 of the Revenue Act of 1921.

(*b*) If capital stock of the corporation is reacquired but not paid for out of current profits, the cost of such stock should be deducted from invested capital.

(*c*) Report dividends paid out of profits of prior years but not dividends paid out of profits of the taxable period. Any distribution made during the first 60 days of the taxable period shall be deemed to have been made from earnings or profits accumulated during preceding taxable years, but any distribution made during the remainder of the taxable period shall be deemed to have been made from the profits for that period to the extent that such profits are sufficient. (See Section 201 (f) of the Revenue Act of 1921.)

(*d*) The amount of Federal income and profits taxes payable should be prorated and deducted as of the dates when due and payable whether reserves have been set up on the books or not. The average adjusted deduction to be entered in column 7 equals total income and profits tax multiplied by 0.4726.

3. The data called for in columns 1 to 5 should be given for all transactions, except that columns 3 and 4 are applicable only to the issue or reacquisition of the corporation's stock.

4. In column 6 enter the number of days remaining in the taxable period (including the date of change).

5. The net changes not reported in Schedule L, if not in accordance with the increases or decreases reflected in the balance sheets, should be fully reconciled thereunder.

1. Nature of additions and deductions.	2. Date.	3. Number of shares sold or reacquired.	4. If for cash, state price per share	5. Amount of cash or cash value actually received or paid out.	6. Number of days effective.	7. Adjusted average. (Column 5 × Column 6 ÷ No. days in taxable period.)
1 Sold stock	1/12	50	100.00	5000.00	365	5000.00
2 Reacquired "	1/13	5	100.00	500.00	351	480.82
3 1/2 Income Tax	1/15			521.55		270.41
4 Sold stock	1/12	40	100.00	4000.00	184	2016.44
5 " "	12/12	10	1085.0	10850.00	83	2467.73
6 " "	11/12	10	100.00	250.00	31	21.23
7						
8						
9 NET INCREASE OR DECREASE						$ 6583.17

SCHEDULE J.—INADMISSIBLE ASSETS.

Has the corporation any inadmissible assets (i. e., stocks, bonds, and other obligations, except obligations of the United States, the income from which is not taxable? ....No....

If so, attach hereto a statement showing for the taxable period the facts called for in Items (*a*) to (*f*) of this schedule.

If the income from such assets consists in part of gain or profit from the sale or other disposition thereof, or if all or part of the interest derived from such assets is an effect included in the net income because of the limitation on the deduction of interest under Section 234 (a) 2 of the Revenue Act of 1921, then a corresponding part of the capital invested in such assets is deemed an admissible asset. In such case set forth in detail—

(*a*) the various kinds of income derived from such assets and the computation of the part of the capital invested therein which is deemed an admissible asset.

For the purpose of this schedule inadmissible assets shall be valued at cost of acquisition, except that if the corporation is a dealer in securities and inventories such securities in determining its net income, such inventory figure shall constitute the measure of value. Admissible assets shall be valued as provided in Sections 326 and 328 of the Revenue Act of 1921. The average amount of assets of each kind held during any year may ordinarily be determined by dividing by 2 the sum of the amount of such assets held at the beginning of the taxable period and the amount held at the end of the taxable period. In such case the amount of admissible assets may best be determined from (*1*) the balance sheet as at the beginning of the period *adjusted* with respect to the items in Schedules F and G and (*2*) the balance sheet as at the end of the period correspondingly adjusted. But if at any time during the taxable period a substantial change has taken place in the amount of such assets, the average amount must be determined as provided in the Regulations issued under authority of the Revenue Act of 1921. In such case show in detail—

(*b*) Amount of inadmissible assets held at beginning of the taxable period;

(*c*) Amount of inadmissible assets held at end of taxable period;

(*d*) Amount of inadmissible assets held during taxable period;

(*e*) Average amount of inadmissible assets held during taxable period;

(*f*) Amount of admissible assets held at beginning of taxable period;

(*g*) Amount of admissible assets held at the end of taxable period;

(*h*) Average amount of admissible assets held during taxable period;

(*i*) Sum of (*e*) plus (*h*);

(*j*) Percentage which (*e*) is of (*i*).

This percentage (*j*) should be applied to the amount appearing on line 7, Schedule B, in order to obtain the deduction on account of inadmissible assets, which should be entered on line 8, Schedule B.

3—10415

Illustration No. 169, Page 2 of Corporation Income Tax Return.

Page 3 of Return.

QUESTIONS.

KIND OF BUSINESS.

1. By means of the key letters given below, identify the corporation's main income-producing activity with one of the general classes, and follow this by a special description of the business sufficient to give the information called for under each general class

A.—Agriculture and related industries, including fishing, logging, and harvesting, etc., and also the leasing of such property. (State the product or products.) **B.**—Mining and quarrying, including gas and oil wells, and also the leasing of such property. (State the product or products.) **C.**—Manufacturing. (State the product and also the material if not implied by the name of the product.) **D.**—Construction—excavations, buildings, bridges, railroads, shafts, etc., also equipping and installing same with systems, devices, or machinery, without their manufacture. (State nature of structures built, materials used, or kind of installations.) **E1.**—Transportation—rail, water, local, etc. (State the kind and special product transported, if any.) **E2.**—Public utilities—gas (natural, coal, or water); electric light or power (hydro or steam generated); heating (steam or hot water); telephone; waterworks or power. **E3.**—Storage—without trading or profit from sales—(elevators, warehouses, stockyards, etc.) (State product stored.) **E4.**—Leasing transportation or utilities. (State kind of property.) **F.**—Trading in goods bought and not produced by the trading concern. (State manner of trade, whether wholesale, retail, or commission, and product handled. Sales with storage with profit primarily from sales.) **G.**—Service—domestic, including hotels, restaurants, etc.; amusements; other professional, personal, or technical service. (State the service.) **H.**—Finance, including banking, real estate, insurance. **I.**—Concerns not falling in above classes (a) because of combining several of them with no predominant business, or (b) for other reasons.

2. Concerns whose business involves activity falling in two or more of the above general classes, where the *same product* is concerned, should report business as identified with but one of the above general classes, for example, concerns in A or B which also transport and market their own product exclusively or mainly, should still be identified with classes A or B; concerns in C (manufacturing) which own or control their source of material supply in A or B and which also transport, sell, or install their own product exclusively or mainly, should be identified with manufacturing; concerns in D may control or own source of supply of materials used exclusively or mainly in their construction work; concerns in E1 or E2 may own or control the source of their material or power; concerns in F may transport or store their own merchandise, but its production would identify them with A, B, or C.

3. Answers

(a) General class (use key letter designation) F

(b) Main income-producing business (give specifically the information called for under each key letter, also whether acting as principal, or as agent on commission; state if inactive or in liquidation)

Wholesale business.

Product: groceries.

OTHER CORPORATIONS IN SAME BUSINESS.

4. Enter on the following lines the names and addresses of five representative corporations in your locality or section of the country engaged in the same kind of business

The Colter Company, 535 Reading Road, City.
Foltz Gro. & Baking Co., 7 E. Water St., City.
Cinti Wholesale Gro. Co., 9th & Broadway, City
American Grocery Co., 580 W. Sixth St., City.
Janszen Grocery Co., Second & Walnut, City.

INCORPORATION.

6. Date of incorporation January 1, 192..

6. Under the laws of what State or country Ohio.

REORGANIZATION AND ACQUISITION OF MIXED AGGREGATES OF ASSETS.

7. Has the corporation, *or any of its predecessors*, been reorganized, or has it, *or any of its predecessors*, taken over a going business or acquired a mixed aggregate of tangible and intangible property, and paid for such property in whole or in part with stock or other securities since the close of the preceding taxable period? No

8. If so, furnish a brief narrative history of the business and submit a statement showing:

(a) The name of the concern taken over (or from which the property was acquired);

(b) The nature of the assets and liabilities so acquired;

(c) The total par value of the stock issued therefor;

(d) The value at which each class of assets was carried on the books of the concern from which acquired (submit a balance sheet of the predecessor concern as at the date of acquisition or as at the close of its last accounting period prior thereto);

(e) The value at which each item was carried on the books of the corporation making this return, and full details of any adjustments subsequently made pertaining thereto and the basis on which such revaluation was made.

9. If patents, copyrights, secret processes or formulæ, good will, trade-marks, trade brands, franchises, or other intangible property were acquired, state the basis on which their value was determined and how they were paid for.

10. If at the time of any purchase or reorganization as contemplated in question 7, any property was entered on the books of the reorganized concern or any vendee predecessor at a value in excess of that at which it was carried on the books of the vendor concern, state the basis on which the revaluation was made.

AFFILIATIONS WITH OTHER CORPORATIONS (TO BE ANSWERED BY EVERY CORPORATION).

11. Does the corporation own directly or control through closely affiliated interests or by a nominee or nominees over 70 per cent of the outstanding voting capital stock of another corporation or of other corporations? No

12. Is over 70 per cent of your outstanding voting capital stock owned by another corporation or by two or more corporations that are affiliated? No

13. Is over 70 per cent of your outstanding voting capital stock as well as over 70 per cent of the outstanding voting capital stock of another corporation or of other corporations owned or controlled by the same individual or partnership or by the same individuals or partnership? No

14. If the answer to questions 11, 12, and 13, or to any of them, is "yes" answer the following:

(a) Did the corporation file Affiliated Corporations Questionnaire, Form 819, for 1917 or subsequent taxable years? ..... If the answer to this question is "yes," a questionnaire is not required, except under the circumstances described in question (b). If the answer to this question is "no," and the answer to questions 11, 12, and 13, or to any of them, is "yes" procure from the Collector of Internal Revenue for your district Form 819, which shall be filled out and filed as a part of this return. If the answer to this question is "no," question (b) need not be answered.

(b) Did substantially the same conditions, as are set out in the questionnaire filed for 1920 or prior years obtain during the entire taxable period, 1921?

If the answer to this question is "no," a statement, setting forth the particulars in which the situation has changed, should be attached to and made a part of this return. If there have been substantial changes in the shareholdings, a complete schedule of such changes should be submitted in the form prescribed in Tables 3 and 6 of the questionnaire. If there are companies other than those covered by the questionnaire for 1920 or prior years which, applying the tests contained in questions 11, 12, or 13, may have come into the affiliated group since 1920, a questionnaire, Form 819, is required for the entire group for the taxable period.

VALUATION OF CAPITAL STOCK.

15. What was the fair value of the total capital stock of the corporation as determined in the last assessment, if any, of the capital stock tax? $ 22500.00 Date of that assessment June 30, 192..

PREDECESSOR BUSINESS.

16. Did the corporation file a return under the same name for the preceding taxable period? Yes If not, was the corporation in any way an outgrowth, result, continuation, or reorganization of a business or businesses in existence during this or the preceding taxable period? ——— If answer is "yes," give name and address of each predecessor business.

BASIS OF RETURN.

17. Is this return made on the basis of actual receipts and disbursements? No

If not, describe fully what other basis or method was used in computing net income.

Acorual

GOVERNMENT CONTRACTS.

18. Have any adjustments been made during the taxable period on account of contract or contracts with the Government or its agencies or in any Government contract or contracts from which the corporation derived income directly or indirectly, through the operations of a claim board or otherwise? No If the answer to this question is "yes," state the amounts involved $———; whether or not such amounts are included in this return ———; and, if not, was an amended return, accounting for the additional income, filed for the taxable period in which the contract was terminated? ——— Submit a schedule showing full particulars of the contract, date entered into, date the work ceased under said contract or contracts, and the amount and nature of the adjustment.

AMORTIZATION.

19. Has amortization been claimed? ——— If the answer to this question is "yes," state for what year ——— Amount $———

LIST OF ATTACHED SCHEDULES.

Enter below a list of all schedules accompanying this return, giving for each a brief title and the schedule number

To accompany Schedule A2: Certificate of Inventory, Form 1126.
Schedule A3: Gross Income from Operations Other than Trading or Manufacturing.
Schedule A10: Gross Income from All Other Sources.
Schedule A12: Expenses.
Schedule A13: Compensation of Officers.
Schedule A14: Repairs.
Schedule A15: Taxes.
Schedule A17: Bad Debts.
To accompany Schedule A18: Obsolescence.
" " " " Cl: Goodwill.
" " " " 33 (c): Previous Owner's Valuation of Assets at Time of Acquisition by Corporation.
Schedule K: Balance Sheets.

SCHEDULE K.—BALANCE SHEETS.

Attach hereto balance sheets as at the beginning and end of the taxable period, preferably in parallel columns, showing as nearly as practicable the details called for below. These balance sheets should be prepared from the books and should be in agreement therewith, or any differences should be reconciled, and if this is a consolidated return, balance sheets should be furnished in accordance with paragraph 7 of page 1 of Instructions.

ASSETS.

Cash (including cash in bank and on hand, certificates of deposit, etc.).
Trade accounts (before deducting reserve for losses).
Notes receivable from customers.
Other accounts and notes receivable (to be classified).
Inventories:
- Raw materials.
- Work in progress.
- Finished products.
- Supplies.

Investments:
- Bonds—
  - U. S. bonds and obligations (each issue to be stated separately).
  - Exempt (municipal, State, etc.).
  - Other.

ASSETS—Continued.

Investments—continued
- Stock of corporations—
  - Foreign.
  - Domestic.

Loans and advances
- To officers and employees.
- To others.

Deferred charges to future operations (to be detailed).
Fixed assets
- Land.
- Buildings.
- Machinery.
- Tools and minor equipment.
- Delivery equipment.
- Office furniture.
- Other (state character).

ASSETS—Continued.

Fixed assets—continued.
- Less reserves for depreciation (show separately amount applicable to each fixed asset).*

Net Value.

Patents, good will, and other intangible assets:
- Paid for in cash or other tangible property.
- Paid for in stock (other than stock dividends).
- Created by stock dividend or otherwise.

Discount:
- On bonds.
- On stock.

Total.

LIABILITIES.

Notes payable:
- To officers and stockholders.
- To others (including bank loans).

Accounts payable:
- Trade.
- Public.

Accrued expenses and reserves, the charges creating which are allowable deductions from income (to be detailed).
Reserves, the charges creating which are not allowable deductions from income
- Reserves for losses on notes and accounts receivable.
- Other reserves (to be detailed).

Capital stock outstanding (to be classified).
Surplus and undivided profits.
Total.

*Reserves for depreciation may be deducted from the respective asset accounts or itemized on the liability side of the balance sheet.

All corporations engaged in an interstate and intrastate trade or business and reporting to the Interstate Commerce Commission and to any national, State, municipal, or other public officer, may submit in lieu of above form, copies of their balance sheets prescribed by said Commission or State and municipal authorities, as at the beginning and end of the taxable period.

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Illustration No. 170, Page 3 of Corporation Income Tax Return.

Page 4 of Return.

SCHEDULE L.—RECONCILIATION OF NET INCOME AND ANALYSIS OF CHANGES IN SURPLUS.

1 Net income from Schedule A, Item 27	$		6	013	83	
2 Nontaxable items:						
(a) Interest on obligations of the United States and its possessions (exempt)						
(b) Interest on obligations of States, Territories, and political subdivisions thereof						
(c) Interest on Farm Loan Bonds issued under Federal Farm Loan Act						
(d) Dividends (deductible under Section 234(a) 6 of the Revenue Act of 1921)						
(e) Dividends on stock of personal service corporations out of earnings upon which a Federal income tax has been imposed						
(f) Other items of nontaxable income (to be detailed):						
(1)						
(2)						
(3)						
3 Charges against reserve for bad debts, if Item 17, Schedule A, is not an addition to a reserve						
4 Charges against reserves for contingencies, etc (to be detailed)						
(a)						
(b)						
(c)						
5 Total of Items 1 to 4, inclusive	$		6	013	83	
6 Total from Item 14				100	00	
7 Net profit for year as shown by books, before any adjustments are made therein (Item 5 minus Item 6)	$		5	913	83	
8 Surplus and undivided profits as shown by balance sheet at close of preceding taxable period			7	328	41	
9 Other credits to surplus (to be detailed):						
(a)						
(b)						
(c)						
10 Total of Items 7 to 9, inclusive	$		13	242	24	
11 Total from Item 17				521	55	
12 Surplus and undivided profits as shown by balance sheet at close of taxable period (Item 10 minus Item 11)	$		12	720	69	

13 Unallowable deductions:						
(a) Donations, gratuities, and contributions	$			100	00	
(b) Income and profits taxes paid to the United States, its possessions, or foreign countries						
(c) Special improvement taxes tending to increase the value of the property assessed						
(d) Furniture and fixtures, additions, or betterments treated as expenses on the books						
(e) Replacements and renewals						
(f) Insurance premiums paid on the life of any officer or employee where the corporation is directly or indirectly a beneficiary						
(g) Interest on indebtedness incurred or continued to purchase or carry obligations or securities of the United States, the interest upon which is wholly exempt from taxation, except interest incurred to purchase or carry Victory 4½% Notes, originally subscribed for by the taxpayer						
(h) Additions to reserves for bad debts which are not included in Item 17, Schedule A						
(i) Additions to sinking fund reserve, and reserves for bad debts and other contingencies (to be detailed):						
(1)						
(2)						
(3)						
(j) Other unallowable deductions (to be detailed):						
(1)						
(2)						
(3)						
14 Total of Item 13	$			100	00	
15 Dividends paid during the taxable period (state whether paid in cash, stock of this company, or other property):						
(a) Date paid..... Character.....	$					
(b) Date paid..... Character.....						
(c) Date paid..... Character.....						
(d) Date paid..... Character.....						
16 Other deductions (to be detailed):						
(a) Federal Income Tax				521	55	
(b)						
(c)						
17 Total of Items 13 and 15	$			521	55	

SCHEDULES TO BE FURNISHED IN SUPPORT OF ITEMS IN SCHEDULE A.

The following schedules must be furnished, and those prepared on separate sheets should be firmly attached to this return. Enter name and address of corporation on each sheet.

SCHEDULE A2: COST OF GOODS SOLD, EXCLUSIVE OF ITEMS CALLED FOR SEPARATELY.

If engaged in a trade or business in which the production, purchase or sale of merchandise of any kind is an income-producing factor, in order to secure from the Collector of Internal Revenue and file as a part of this return, Certificate of Inventory, Form 1126, and (1) fill in the following schedule entering on lines 3 and 5 immediately before the amount column, the letters "C," or "C or M," to indicate that inventories are stated at either cost or cost or market, whichever is lower

(1) Merchandise on hand at beginning of year	$	90714.14	
(2) Cost of manufacturing or otherwise producing goods (submit schedule showing principal items of cost, the minor items being grouped in one amount)			
(3) Plus inventory at beginning of year	C or M	14606.05	
(4) Total	$	105320.19	
(5) Less inventory at end of year	C or M	31251.78	
(6) Cost of goods sold	$	74068.41	

SCHEDULE A3: GROSS INCOME FROM OPERATIONS OTHER THAN TRADING OR MANUFACTURING.

Submit a schedule showing the nature and amount of the principal items included herein, the minor items being grouped in one amount. (For insurance companies see page 2 of Instructions, paragraphs 2 and 7.)

SCHEDULE A4: TAXABLE INTEREST ON LIBERTY BONDS, ETC.

The interest on the obligations listed in column 1 of the following table is wholly exempt from composition income tax and is exempt from excess-profits tax only to the extent that the aggregate principal amounts do not exceed the exemptions specified in columns 2, 3, and 4.

In case the obligations held exceed these exemptions, the principal amounts in excess thereof should be entered in column 5, and the taxable interest thereon in column 6. If these securities were bought and sold during the taxable period, attach a statement showing the holdings by periods.

If this is a consolidated return, each corporation composing the affiliated group is entitled to the full amount of these exemptions.

1 Obligations.	Exemptions (Aggregate Principal Amount) 2 $10,000	3 $20,000	4 $5,000	5 Principal amount in excess of exemptions specified in columns 2, 3, and 4	6 Interest on principal amount in column 5 (in case of exemption)
(a) First Liberty Loan Second Converted 4% Bonds					
(b) First and Second 4s, and First, Second, Third, and Fourth 4½s	None				
(c) Other obligations acquired since September 1, 1917 (except Victory Notes and Treasury Notes)	None	None			
(d) Victory Liberty Loan 4½% Notes, and Treasury Notes	None	None	None		
TOTAL TAXABLE INTEREST				$	

SCHEDULE A10: GROSS INCOME FROM ALL OTHER SOURCES (not including any amount with respect to sale of capital assets or miscellaneous investments).

Submit a schedule showing the source, nature, and amount of the principal items included herein, the minor items being grouped in one amount. The total of the schedule is entered as Item 11, Schedule A.

SCHEDULE A12: EXPENSES (except amounts called for separately in Schedule A).

Submit a statement showing character and amount of the principal items included herein, the minor items being grouped in one amount. (For schedules to be submitted by insurance companies see page 2 of Instructions, paragraphs 3 to 7.)

SCHEDULE A13: COMPENSATION OF OFFICERS.

Submit a schedule showing for each officer (1) name, (2) duties, (3) time devoted to such duties, (4) shares of stock owned or controlled, preferred, or common, (5) total compensation for the taxable period, and (6) amount of, and reason for increase, if any, over preceding period.

SCHEDULE A14: REPAIRS (including labor, supplies, overhead, and other items properly chargeable to repairs).

Submit a schedule showing the nature and amount of the principal items included herein, the minor items being grouped in one amount. (For classification of repairs see page 2 of Instructions, paragraph 8.)

SCHEDULE A16: TAXES.

Submit a schedule showing separately for each class of taxes deducted, (a) character, and (b) amount. Except income and profits taxes, taxes which are credit under section 238, taxes assessed against local benefits of a kind tending to increase the value of the property assessed are not allowable deductions. (See Section 234(a) 3 of the Revenue Act of 1921.)

SCHEDULE A17: BAD DEBTS.

Submit a schedule showing debts or portions thereof, arising from sales or professional services that have been returned as income which have become entirely worthless and charged off within the year, or such recoveries on account as has been duly included as income. If the amount entered in Item 17, Schedule A, is in addition to a reserve, furnish proof of the reasonableness of the amount. (See Section 234(a) 6 of the Revenue Act of 1921.)

SCHEDULE A18: EXHAUSTION, WEAR AND TEAR (including obsolescence).

If a deduction is made on account of depreciation, the following schedule must be filled in, and the total amount claimed therein should correspond with the figures entered in the balance sheet. Land values must not be included in this schedule. (See page 2 of Instructions, paragraph 10, and Section 234(a) 7 of the Revenue Act of 1921.)

Kind of property (If buildings, state the material of which constructed)	Date acquired	Age when acquired	Probable life after acquirement	Cost or if acquired prior to Mar. 1, 1913, the fair market value on that date	Amount of depreciation charged off. This year.	Previous years.
Office Equip	1/1/12	2 yrs	35 yrs	500.00	15.00	27.25
Store Fixt.	6/1/12	2 yrs	35 "	350.00	10.50	17.15
Del Equip	1/01	2 yrs	25 "	2018.00	80.72	140.72
Bldg (Store)	1/01	15 "	20 "	3000.00	150.00	300.00
Total				5868.00	256.22	485.12

NOTE.—Fair tolerance is a factor in determining your deduction; attach a statement showing the amount claimed for the taxable period and the basis on which computed.

SCHEDULE A19: DEPLETION.

If a deduction is claimed on account of depletion, secure from the collector Form D (minerals), Form E (coal), Form F (miscellaneous nonmetals), Form G (oil and gas), or Form T (timber), fill in and file with return. If complete valuation data has been filed with commissioner in previous years, then file with this return information necessary to bring your depletion schedule up to date, stating both in full statement of all transactions bearing on the computations or a reference to value of physical assets with explanation of how depletion deduction for taxable period has been determined. In case of timber that should be done by filing in Form T (timber).

SCHEDULE A20: AMORTIZATION OF WAR FACILITIES.

In case a deduction is claimed on account of amortization, a schedule should be submitted containing the information required for in Circular No. 94, which explains in detail the manner in which a claim of this nature should be presented. A copy of this form may be obtained from the Commissioner. (See Section 214 (b) 9 of the Revenue Act of 1921.)

SCHEDULE A21: PROFIT OR LOSS ON SALES OF CAPITAL ASSETS AND MISCELLANEOUS INVESTMENTS.

In case of disposal of property, resulting in a profit or loss, a schedule in the following form must be furnished, including any sales made before March 1, 1913. (See Section 202, Title 4 and 204(a) 14 of the Revenue Act of 1921.)

1 Kind of property	2 Date acquired.	3 Sale price.	4. Cost.	5. Fair market value on March 1, 1913 if acquired prior to that date	6. Cost of improvements subsequent to March 1, 1913	7. Depreciation.	8. Net profit (or loss.)
			$	$	$	$	$
Total							$

State what amount, if any, included in column 5, represents good will... $.....

If any of the assets were acquired prior to March 1, 1913, state how the fair market value on that date was determined.....

In case of exchange of property, submit evidence substantiating the basis used in arriving at the market value of property received.....

SCHEDULE A15: LOSSES BY FIRE, STORM, ETC.

A schedule similar to the one required above should be submitted with respect to losses of property arising from fire, storm, shipwreck, or other casualty, or from theft, and not compensated for by insurance or otherwise, except that counsel should show "insurance and salvage" instead of "Sale price."

SCHEDULE A9: DIVIDENDS deductible under Section 234-a(6) of the Revenue Act of 1921).

Submit a schedule showing the amount received by the dividends (a) from each domestic corporation other than a corporation entitled to the benefits of section 264 of the Act, or (b) from each foreign corporation when less than 50 per centum of the gross income of such foreign corporation for the three-year period ending with the close of its taxable year preceding the declaration of such dividends (or for such part of such period as the foreign corporation has been in existence) was derived from sources within the United States as determined under Section 217 of the Act.

DISCOUNT AND PREMIUM ON BONDS SOLD.

There must be attached to the return a schedule showing in detail each issue and sale of bonds of the respective corporation giving the following information: (a) Class, (b) date of sale, (c) maturity, (d) amount sold; (e) amount realized; (f) premium or discount per annum.

That proportion of the premium or discount applicable to the return period must be reported either as Item 10 or 15, Schedule A, unless the amount of premiums or discount has been reported as income or allowed as a deduction in prior years.

We, the undersigned, president and treasurer of the corporation for which this return is made, being severally duly sworn, each for himself deposes and says that this return, including the accompanying schedules and statements, has been examined by him and is, to the best of his knowledge and belief, a true and complete return made in good faith, for the taxable period as stated, pursuant to the Revenue Act of 1921 and the Regulations issued under authority thereof.

Sworn to and subscribed before me this ..... day of ....., 192 .

President.

Treasurer.

Seal of officer making affidavit.

(Official capacity.)

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Illustration No. 171, Page 4 of Corporation Income Tax Return

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